
LITERATURE APPENDIX

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Keywords

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Citation	Summary
Samuelson [1975]	Reviews optimal consumption-investment decisions for investors with constant relative risk aversion utility functions. Shows that optimal portfolio decisions are independent of time, wealth, and consumption. Demonstrates that investing over multiple periods does not increase risk tolerance.
Merton [1969]	Examines optimal portfolio selection and consumption rules in a continuous-time model with stochastic asset returns. Develops optimality equations for multi-asset problems with Wiener processes, with detailed analysis of two-asset cases under constant relative and absolute risk aversion.
Samuelson [1989]	Challenges conventional wisdom that young investors should take more risk than older investors. Shows that when retirement requires minimum wealth levels, investors become less risk-tolerant in youth - the Merton paradox. However, declining human capital with age can reverse this effect.
Epstein and Zin [1989]	Develops recursive utility preferences that separate risk attitudes from intertemporal substitution. Shows how these preferences lead to an asset pricing model combining both CAPM and consumption CAPM, where systematic risk depends on both market portfolio returns and consumption growth.
Deaton [1991]	Analyzes saving behavior under borrowing constraints. Shows that with impatient consumers and i.i.d. income, assets act as buffer stock against income shocks. Model can explain microeconomic saving patterns but struggles to match aggregate data unless accounting for heterogeneous income processes.
Bodie et al. [1992]	Examines how labor-leisure choice affects portfolio and consumption decisions over the lifecycle. Shows that labor flexibility allows greater risk-taking in investment portfolios since labor supply can adjust to offset investment losses.
Kimball [1991]	Introduces “standard risk aversion” concept where risks that make wealth reductions more painful also make independent risks more painful. Shows this requires both decreasing absolute risk aversion and decreasing absolute prudence.
Jagannathan and Kocherlakota [1996]	Evaluates common financial planning advice to reduce stock allocation with age. Finds only the human capital argument valid - younger investors should hold more stocks only if their labor income is uncorrelated with stock returns.
Carroll [1997]	Argues that household saving is better explained by “buffer-stock” model than traditional lifecycle hypothesis. Shows how income uncertainty and impatience lead consumers to maintain target wealth-to-income ratios, explaining several empirical puzzles.
Viceira [2001]	Shows that employed investors should optimally invest more in stocks than retirees when labor income is uncorrelated with stock returns. Increased labor income risk reduces willingness to hold stocks, with savings being more responsive than portfolio allocation.
Campbell and Viceira [1999]	Presents analytical solution for portfolio choice with time-varying equity premium. Shows hedging motives can double stock demand for risk-averse investors. Market timing and hedging provide significant welfare benefits.
Barberis [2000]	Examines how return predictability affects long-horizon portfolio choice, accounting for parameter

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