

Accepted Manuscript

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PII: S2214-6350(17)30004-7

DOI: <http://dx.doi.org/10.1016/j.jbef.2017.02.005>

Reference: JBEF 102

To appear in: *Journal of Behavioral and Experimental Finance*

Received date: 5 January 2017

Accepted date: 11 February 2017



Please cite this article as: Pak, T.-Y., Choung, Y., Rationality of longevity expectations: Evidence from the Korean Longitudinal Study of Aging. *Journal of Behavioral and Experimental Finance* (2017), <http://dx.doi.org/10.1016/j.jbef.2017.02.005>

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Rationality of longevity expectations: Evidence from the Korean Longitudinal Study of Aging*

Tae-Young Pak[†] Youngjoo Choung[‡]

January 4, 2017

Abstract

This study utilizes data from the Korean Longitudinal Study of Aging to test the rational expectations hypothesis in individual-level decision-making. A primary focus is on expectations about survival in which the outcome is unknown but reasonably predictable with private information. The rationality of longevity expectations is tested on two grounds: belief formation and its association with consumption and savings outcomes. Results show that longevity expectations are formed rationally and predictive of greater saving, wealth accumulation, and negative consumption growth. The estimates remain robust to the inclusion of a variety of other expectations, confirming that our findings are not picking up the effect of general disposition towards future. Overall, this study finds evidence in support of the predictions from the rational expectations hypothesis and life-cycle model under uncertain lifetime.

Keywords: Longevity Expectations, Subjective Survival Probability, Rational Expectations, Saving, Consumption Growth

JEL Classification Codes: D12, D14, D80 D84, D91

*This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

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