

# The Age of Reason: Financial Decisions Over the Lifecycle

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## Abstract

The sophistication of financial decisions varies with age: middle-aged adults borrow at lower interest rates and pay fewer fees compared to both younger and older adults. We document this pattern in ten financial markets. The measured effects can not be explained by observed risk characteristics. The sophistication of financial choices peaks at about age 53 in our cross-sectional data. Our results are consistent with the hypothesis that financial sophistication rises and then falls with age, although the patterns that we observe represent a mix of age effects and cohort effects. (JEL: D1, D4, D8, G2, J14).

Keywords: Household finance, behavioral finance, behavioral industrial organization, aging, shrouding, auto loans, credit cards, fees, home equity, mortgages.

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