

Life Cycle Planning

User's Manual

Main Fields

Each sheet contains two main fields, one including the main assumptions and one summarizing the results.

The field "**Key Assumptions**" contains information about the market conditions (asset returns, probabilities), investor's preferences and his financial situation. The button RUN generates results for the case that the investor is an expected utility maximizer. The button RUN1 generates results for the behavioural investor without hyperbolic discounting. The button RUN2 generates results for the behavioural investor with hyperbolic discounting.

The field "**Results**" reports the results of the calculations: the optimal consumption path, the income distribution, the optimal asset allocation, and the ratio risky assets to financial capital over time. The asset allocation describes the optimal split of wealth between cash and risky assets in the current period and in the case that the market goes up or down in the period ahead. The ratio risky assets to financial capital describes the ratio between the amount of total capital (financial capital and human capital), which is not consumed and invested in the risky asset and the investor's financial capital.

Description of the Included Sheets

The sheet "CRRA" calculates the optimal consumption path, resulting income distribution and optimal asset allocation of an expected utility maximizer with CRRA.

The sheet "PT" calculates the optimal consumption path, resulting income distribution and optimal asset allocation of a behavioural investor.

Problem Shooting

If you have problems to generate results visit the site:
<http://www.egr.msu.edu/~lira/supp/macro.htm#pointing>

or send an email: kremena@isb.uzh.ch