

## Risk Attitudes and the Skill Structure of Immigrants

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### Abstract:

This paper examines theoretically and empirically how risk attitudes of immigrants affect their decision to invest in human capital in the host economy. We develop a simple model to show that risk aversion reduces investment in human capital when either of the following factors increases: i) the uncertainty about the return to human capital investment, ii) the cost of investment, and iii) the opportunity costs. Our empirical exercise provides several insights. First, we show that immigrants and natives differ in risk preferences, and that immigrants face a higher earnings and unemployment risk than otherwise similar natives. Second, our results show that risk preferences do play a substantial role in explaining investment decision in human capital for immigrants. Third, we find that the role of risk preferences is higher for the decision to invest in higher education (university degree) than to invest in vocational education, a result that is in line with our evidence that investing in vocational education is relatively less risky.