

## Occupational earnings variance and risk preference

Tom Stolp

**Abstract:** This paper estimates earnings risk by occupation and makes two distinctions. Firstly, occupational earnings variance is decomposed into elements of potential earnings that are either known or unknown to the agent at the time occupational choices are made. Secondly, earnings risk is dissected into a permanent and transitory component. Additionally, to assess the importance of these decompositions, I investigate whether more risk-taking individuals self-select into occupations that are characterized by greater earnings risk. The results suggest that for most occupations a substantial part of unobserved earnings effects is foreseeable *ex ante* and should therefore not be included in the measure of earnings risk. Furthermore, occupational earnings risk is estimated to consist primarily of permanent risk. Individuals who are more willing to take risk are associated with higher expected earnings risk. This correlation is primarily driven by permanent earnings risk, even though the association between transitory risk and risk attitude is positive.