

PORTFOLIO CHOICES WITH NEAR RATIONAL AGENTS:  
A SOLUTION TO SOME INTERNATIONAL-FINANCE PUZZLES

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**ABSTRACT**

A dynamic model of consumption and portfolio decisions is analyzed in which agents seek robust choices against some misspecification of the model probability distribution. This near-rational environment can at the same time explain an imperfect international portfolio diversification and break the link between cross-country consumption correlation and real exchange rate as it is usually implied by standard preference specifications. Portfolio decisions imply moment restrictions on asset prices that are useful to extract information on the degree of near-rationality present in the data.

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