Public Abstract

First Name:Byungtae
Middle Name:
Last Name:Yoon
Adviser's First Name:Ronald
Adviser's Last Name:Ratti
Co-Adviser's First Name:
Co-Adviser's Last Name:
Graduation Term:FS 2006
Department:Economics
Degree:PhD
Title:Motives for Savings and Portfolio Choice: Evidence from Micro-Data for Japan

This study investigates the effects of income risk and liquidity constraints on household portfolio choice and saving behavior using Japanese household-level data (POSFAL) from 1989 to 2003. The Japanese economy presented distinctive features in the 1990's: a declining trend in household saving rate, a smaller share of risky assets, and a larger share of liquid safe assets in portfolios. This household portfolio change deviates from international standard trend.

Two hypotheses are competing to explain the declining saving rate and change in portfolio choice in Japan–life cycle theory based on the rapid aging society of
Japan and the uncertainty, and liquidity constraints based on the deteriorating economy in the 1990's. The latter is focused on in this paper.

Some extensions are added to Guiso et al's seminal paper (1996) for portfolio choice: An integrated analysis for both saving and portfolio choice is implemented by examining
"Why people save," "How much people save," and "How people save" together. Next, an overall portfolio structure classified by four groups is analyzed.
An integrated analysis for three aspects of saving and overall analysis for whole portfolio structure provide following results for saving and portfolio behavior in Japan.

First, a factor entailing precautionary saving does not necessarily accompany a precautionary portfolio. Precautionary saving sensitively responds to income risk and liquidity constraints. But portfolio response takes some time for adjustment. Second, a household with higher precautionary saving motives apparently holds a smaller share of risky assets, a larger share of liquid safe assets and has a lower saving rate. This suggests that other sources of risk like unemployment and health risk affect savings and portfolio choice greatly. Third, each financial market has a specific dominant factor and there is a trade-off relationship between portfolios over explanatory variables.

These results shed light on the explanation of the 1990's in Japan. Increasing income risk and expected liquidity constraints raise the saving rate, but the deteriorating income circumstances dominated and decreased the overall saving rate. Fundamental uncertainty like unemployment risk decrease the share of risky assets and increase the share of liquid assets. Expanded liquid assets contribute to the low interest rates trend.