

# MOTIVES FOR SAVINGS AND PORTFOLIO CHOICE: EVIDENCE FROM MICRO-DATA FOR JAPAN

Byungtae Yoon

Dr. Ronald Ratti, Dissertation Supervisor

## **ABSTRACT**

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. An integrated analysis for three aspects of saving and overall analysis for whole portfolio structure, introduced in this study, provide following results and implications 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.