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STRUCTURAL HOUSEHOLD FINANCE

Abstract:

There are three challenges that confront the household finance literature: measurement, modeling, and estimation. To tackle these challenges, I first document the empirical facts on allocation and participation from the National Survey of Family Income and Expenditure, a cross-sectional household survey in Japan; these facts suggest that stockholders invest effectively, but non-stockholders make considerable mistakes. Then, I develop a structural economic model where households can hold two types of assets: a high-return risky asset and a low-return safe asset, facing incomplete markets and limited stock market participation. Finally, I estimate the structural parameters of the model with data on household portfolio allocation and financial wealth distribution. The estimation outcome suggests that we can consistently explain the equity premium puzzle, realistic wealth distribution, and household investment behavior.

Keywords:

Household finance, limited stock market participation, structural estimation, equity premium puzzle, wealth distribution.

JEL Classification: G11, E22, C13