SAFETY NETS AND INVESTMENT CHOICES

PUBLICATION FACTS

JOURNAL
EMERGING MARKETS REVIEW

PUBLICATION DATE
2025

VOLUME/ISSUE
68

AUTHORS
Wang, Chuhong
Liu, Xingfei
Tani, Massimiliano
Zhao, Yan

ABSTRACT

We examine how reducing 'background risk' - the unobserved uncertainty in investment settings - affects household portfolios when individuals unexpectedly gain a comprehensive safety net encompassing health insurance, pension, and other benefits. Leveraging a natural experiment from China's property rights reform and RUMiC data, we find that the reform increases household savings rates and investments in risky assets, indicating that lower background risk enables households to allocate more resources to higher-return, more productive investments. Our results underscore institutional safety nets as effective policy tools to promote risk-taking and capital accumulation in emerging economies.

Journal Citation Indicator

1.67