

Unemployment Risk and Precautionary Wealth: Evidence from Households' Balance Sheets

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Abstract

This paper examines precautionary behavior by relating job-loss risk to household net worth. We use existing best practice and some new strategies to deal with some problematic issues inherent in this literature regarding proxying uncertainty, instrumentation, and incorporating theoretical restrictions. We do not find precautionary variation in the wealth holdings of households with low permanent income, but do find precautionary effects for moderate and higher-income households. When the dependent variable is total net worth, these findings are robust to several alternative specifications. But we do not find precautionary responses in subaggregates of wealth that exclude home equity.

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