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Research

BESS at MNB (MNB-CEU)

Salvador Ortigueira

How important is Intra-household Risk Sharing for Savings and Labor Supply?

Speaker: **Salvador Ortigueira** (Universidad Carlos III de Madrid)
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Venue: MNB-Visitor Centre (1054 Budapest, Szabadsag ter 8.)

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Abstract

While it is recognized that the family is primarily an institution for risk sharing, little is known about the quantitative effects of this informal source of insurance on savings and labor supply. In this paper, we present a model where individuals (females and males) are subject to idiosyncratic employment risk and where capital market are incomplete. A household is formed by a female and a male who make collective decisions on consumption, savings and labor supplies. In a calibrated version of our model, we find that precautionary savings are only 55% of those generated by a similar economy, but lacking access to insurance from the family. We also find that intra-household risk sharing has its largest impact among wealth-poor households. While wealth-rich households use savings to smooth consumption across employment states, wealth-poor households rely on spousal labor supply. For instance, in the group of households with wealth less than two months worth of income, average hours worked by wives of unemployed husbands are 8% higher than those worked by wives of employed husbands. This response in wives' hours makes up 9% of lost family income. We also find crowding out effects of public unemployment insurance that are comparable to those estimated from the data.