



Social Science Programme
Department of Economics
Topic Defense Seminar

“In or Out: Chinese households’ decisions on risky financial assets ownership”
(in English)

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Date: 14 April 2011 (Thur)

Time: 9:00 – 10:30 a.m.

Venue: SO322, Dorothy Y. L. Wong Building

Chief Supervisor: Professor WEI Xiangdong

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Abstract:

With the significant growth of both households' wealth and financial markets in China in the past three decades, to participate in any risky financial asset markets or stay out of them becomes a decision confronted by more and more Chinese people. What are Chinese households' choices on their risky financial asset ownership, namely, the "IN-or-OUT" question? Specifically, given the unique situation in China, what are the determinants, mechanisms, processes and consequences of Chinese households' decisions? These questions are critical for both theoretical and empirical research in household finance. However, they have still not been tackled due to lack of both theoretical and empirical research for China. I hope to make contributions on both fronts in this study.

In the first part of this thesis, by analyzing data from a Survey on Chinese households through the approach that dominates the literature in the domain, I found significant effects of age, wealth, income risk, and entry/information costs towards participation, which are consistent with previous studies. Moreover, the low participation rate in financial markets found in many developed countries has now become known as a "Non-participation Puzzle" and attracted many studies to investigate the underlying reasons. My study on China data also found such puzzle.

For the next, I hope to extend the theoretical model for stock market participation, in view of the over-simplicity of the standard normative theory and the unique situation of the stock market in China. Enlightened by Bonaparte and Fabozzi (2010), I propose a two-period theoretical model to investigate the determinants of the "IN-or-OUT" decision as well as their mechanism. Further empirical research will be undertaken based on the extended theory.