

“The study of household finance in China”

(in English)

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Abstract:

Household Finance is an emerging field of finance, which studies the welfare benefits of financial markets for households and how effectively households use this market. It is of significant importance for both academy and policy. However, as an emerging new field, studies in this field are still in its scarcity. Using data from a national representative survey, this thesis is the first one systematically investigating Chinese households' investment in stock market.

The thesis mainly contains three essays. In the first essay, I investigate households' participation decision in stock market. I find significant effects from factors reflecting risk preference, information cost, liquidity constraint, age, gender, marital status, wealth, job nature, expectation on the future economic prospect. Risk aversion stands out as the single most significant factor affecting stock participation and seems to be the most important channel through which other factors exert their influences. The poor, less-educated, and minority are less likely to invest in stocks, while married people, female, residents in major cities, employees in state-owned enterprises, employees of financial or information sectors are more likely to participate. Optimism about future economic prospect is also found to have statistically significant positive effect on stock market participation.

Individual investment performance plays more and more important role in household wealth accumulation and financial well-being. Hence, the question who wins and loses in the stock market is an important one. My second essay addresses this issue by looking at the influences of personal traits on stock market performance. More specifically, I identify an intrinsic disadvantage embedded in human personality, proneness to anxiety (PTA). PTA is intuitively close to the psychology term Trait Anxiety, which measures the relative intensity of anxiety that one experience given same external shock. Using data from China, I find that investors who are more prone to anxiety end up with significantly inferior investment performance in terms of return rate, after controlling for many other relevant factors. This finding is robust across investment periods of both half year and three years, and across regressions using different proxies for PTA. Besides, this essay also finds that the poor, the less-educated, and the female perform worse in stock market, which is consistent with the findings from previous literature that these groups tend to make more investment mistakes. Interestingly, no significant correlation is found between my PTA measure and self-reported risk aversion of individual investors.

My data shows that about one third of households in China have women as their household heads and they are in charge of the household financial decisions. In this context, it is not trivial to investigate gender effects on household investment. In my third essay, I find that although gender difference is prevailing with respect to risk aversion, it does not seem to be intrinsic. On the other hand, gender seems to affect risk preference through its role on financial status and access to information. With respect to the three well-known investor mistakes, female heads of households (FHH) do a better job on stock market participation and portfolio diversification. However, they are more vulnerable to disposition effect and peer effect. This vulnerability fully explains why FHH's investment performances are worse than those of their male counterparts.