

# **Household's Risk preferences, Vulnerability to poverty and Subjective well-being in The Case of Vietnam**

Vu Thu Trang

National Graduate Institute for Policy Studies

## **SUMMARY**

Frequent exposure to shocks and the lack of proper coping mechanisms can have a substantial impact on households. This dissertation explores the three prominent features of household behaviors in the context of rural Vietnam where shocks are prevalent: risk preferences, vulnerability to poverty, and subjective well-being. The dissertation contains two core chapters.

The first main chapter, Chapter 3, examines the validity of various elicitation methods of risk preferences. The methods include 4 hypothetical questions and 3 experimental tasks, in which, we utilize a set of 3 hypothetical questions from a Vietnamese household survey (VARHS). We conducted a field survey and experiment with a random sample of 350 households in 2019 in rural areas of two provinces. The finding of the chapter indicates that most of the participants have no difficulty in understanding the questions and giving rational choices. Most elicitation methods provide evidence that respondents are, on average, risk-averse. Elicitation methods in the study satisfy at least one of the validity tests. Respondents appear less risk-averse in the self-

assessment method than other methods. Therefore, comparing risk preferences elicited from the survey and experimental methods should be done with caution. Next, we find that the self-assessment method has limited validity since it has the least or no relation with other measures and observed behaviors. The result is different from other studies that support the use of self-assessment of risk attitude (e.g., Dohmen et al. (2011) and so could reflect the differences between developed and developing countries. Lastly, the Multiple Price List (MPL) and loss-gain questions are dominant methods in predicting household and individual behaviors, either hypothetical or experimental. Among hypothetical questions from the VARHS, we, therefore, prefer to use the MPL and loss-gain questions in measuring risk attitude. However, the loss-gain questions should be used with caution because people show more loss-averse in the incentivized situation than in the theoretical one.

The second main chapter, Chapter 4, assesses the relationship between vulnerability to poverty and subjective well-being, using four-wave panel data covering the period 2012–2018. To estimate the vulnerability to poverty of households, we employ an extended Vulnerability as Expected poverty (VEP) approach that is based on the three-level model from Mina and Imai (2017). Our findings show that around 20 percent of the panel households are classified as vulnerable at least once in any of the periods covered.

Households are more vulnerable to unobservable idiosyncratic shocks than to unobservable covariate shocks. These results are consistent with Mina and Imai (2017) and once again lend support to the observation that idiosyncratic shocks might not be insured perfectly by village-level mutual help. In addition, households who live in the mountainous area and Central Coast, have a higher risk of falling into poverty than households living in other regions. To examine the relationship between poverty risk and happiness, we employed a Fixed Effect model to deal with the endogeneity of vulnerability. We find a significant and strong relationship between vulnerability to poverty and depression score (CES-D), but not between vulnerability to poverty and life satisfaction.

The findings of the dissertation emphasize the importance of appropriate and supportive systems of social protection and adequate safety nets for vulnerable households, especially for minor ethnicity groups in the mountainous areas. Some suggested policies, such as improving the attractiveness of weather insurance products, expansion of the provision of health insurance coverage, and improvement of health care services might be worth exploring.