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India's First Public Policy School

## Jindal School of Government and Public Policy

*cordially invites you to an*

### *Open Lecture*

on

## Household Finance in Development Countries

by



### **Dr. Pawan Gopalakrishnan**

DR. Pawan Gopalakrishnan is a Research Manager at the Strategic Research Unit of the Reserve Bank of India. He completed his doctoral studies from the Indian Statistical Institute, New Delhi. He works on macroeconomics of the Indian economy. HE taught for a brief time at the law school and the school of government and public policy at OP Jindal global university before joining the RBI.

#### **Abstract**

We use a novel panel data on Indian households to document the household asset portfolio choice along the extensive margin. While households hold high stocks of gold and real estate, a majority of them participate exclusively in financial assets on a regular basis. This dilutes the puzzle on why households in developing countries hold excessive physical assets. We show that a portfolio choice model, a la Grossman and Laroque (1990), where households face an adjustment cost to change their asset holdings, can explain the mismatch observed in the stocks and flows data. Using regional weather shocks as a source of exogenous variation to household incomes, we show that consecutive positive shocks increases household participation in physical assets while a single positive weather shock increases household participation in financial assets, suggesting that households use financial assets as a transitory asset class, thus providing a direct causal evidence for adjustment costs. Furthermore, we show that increasing access to formal financial institutions increases household participation in physical assets by reducing the adjustment costs."

Thursday, 14 February 2019, 12:00 noon – 1:15 pm  
Classroom No. 31, O.P. Jindal Global University  
Sonipat Narela Road, Sonipat - 131001, Haryana (NCR of Delhi)

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