

Risk Sharing Between and Within Regions:^{*}

–Evidence from Japanese Microdata–

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Abstract

We study risk sharing between and within regions in Japanese economy. First, using a household level panel data in Japan, we investigate the extent of economic inequality in urban and rural area. We find that the earnings and wage inequality measured by the variance of logarithm in rural area is higher than that in urban area, although the average earnings in rural area are much lower than those in urban area. On the other hand, consumption inequality between regions is less dispersed compared to the earnings inequality. To investigate whether this empirical finding is consistent with consumption risk sharing, we extend a workhorse Bewley-Huggett-Aiyagari model to include multi-regions. Because one region face higher idiosyncratic risks, precautionary saving motive differs between regions. The difference in precautionary motives make easier to share risks through transfers between regions. We show that the risk sharing between regions in Japan is consistent with the consumption risk sharing.

Keywords: Risk sharing, Regions

JEL Classification: D31, E21, H20, H71

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