This paper examines household participation in the financial market in response to changes in household debts, disposable income, and real estate. Only less than 11 percent of households have participated in the stock market, and less than 0.4 percent have participated in the bond market. However, the participation rate is twice as high in fund markets than in stock markets. Financial debt chiefly results in impingement on financial market participation and is strongly pronounced, especially in fund markets. In contrast, real estate and disposable income tends to boost market participation, offsetting the effect of household debts. In fact, real estate increases household’s likelihood of participating in financial markets by 5 percent or more while an increase in disposable income increases by a range of at least 8 percent in liquid markets to 15.3 percent in fund markets, respectively.

Key words: Household shareholdings, Household debts, Disposable Income, Real estate, Financial Market Participation

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I. Introduction

The recent steep increase in household debts has reached record levels that are about to risk national financial stability simultaneous to an upsurge in government debts. At the end of 2013, household debts amounted to nearly \$1,300 trillion, and by the mid of 2014, government debts exceed \$500 trillion, which represents roughly fourfold increase over the last decade. Household debt is crucial to asset allocation in the sense that it is capable of leveraging household investment through real estate, especially housing. Mortgage loans take up roughly 70 percent of all household debt. Despite increasing interest in portfolio choice by households and relative importance in household wealth in financial markets, not much about typical household behavior in the financial market has been widely researched. We have a rough figure of aggregate household behavior with respect to asset allocation, but not know little about household behavior in financial markets at the micro level. The anatomy of household behavior is virtually all practical issues among bankers and asset management companies because aggregate analysis can mask the real behavior of households at times by not showing real individual attitudes with respect to investment decision. Therefore, I analyze the effect of household debts in tandem with real estate and disposable income over household shareholdings of financial instruments, using household micro-data. Market participation of households is part and parcel of household shareholdings. It is curious why most households are disinclined to

1) According to ECOS DB of Bank of Korea, credit extended to households consist of loans to household(\$962,896 trillion), other financial corporations(\$275,71 trillion) and merchandise credit(\$58,46 trillion).
2) Homepage of the National Assembly Budget Office.
3) Similarly, in this present paper, 1481 in 2010 and 1633 households in 2011 consist of 14.81 % and 15.23% of a mortgage loan. The proportions of total mortgage loan in total debts are 71.4 percent and 79.4 percent each year.
4) This percentage comes from the ratio of mortgage percent(47.9%+4%) over debt percent (76.4%) from Table 10 in 2004 Survey of Consumer Finance in Kennickell(2006).