

Who Could Have Expected Substantial Income Decreases During the Great Recession? Were They Prepared for Emergencies?

Eunice O. Hong, Ph.D. Candidate, The Ohio State University¹

Sherman D. Hanna, Professor, The Ohio State University²

Past cross-sectional studies on emergency fund adequacy have found puzzling results, in that households that were expected real income decreases or who were uncertain about future income were less likely to meet personal finance guidelines than those who expected real income increases. We use the 2007-2009 Panel of the Survey of Consumer Finances to estimate the likelihood that a household will have a substantial decrease in income between 2007 and 2009. We then use the predicted likelihood as an independent variable in a regression on the ratio of monetary assets to spending in 2007. The higher the likelihood of a substantial income decrease, the higher the ratio, controlling for other household characteristics in 2007 and some changes between 2007 and 2009 that could have been expected. The results suggest greater rationality in household decisions on holdings for emergency funds (precautionary savings) than previous researchers have inferred based on cross-sectional analyses.

¹ Human Sciences Department, 1787 Neil Ave., Columbus, OH 43210, E-mail: hong.276@osu.edu

² Human Sciences Department, 1787 Neil Ave., Columbus, OH 43210, E-mail: hanna.1@osu.edu, Phone: (614)292-4584.