Measurement and Decomposition of Households' Vulnerability in Urban China

Abstract: Vulnerability can synthetically reflect inequality and volatility of households' consumption. The level, structure and influencing factors of vulnerability can be obtained by measuring and decomposing households' vulnerability. Based on the definition of vulnerability, this paper constructs a fundamental framework to measure and decompose households' vulnerability in urban China. Using a balanced panel data of CFPS, this paper estimates log-consumption model by using RE model, based on which this paper calculates values of vulnerability and its related five components. Results show that over half of households are vulnerable and inner-community inequality on average is the main component of vulnerability. Through regressing vulnerability and its five components on covariate variables and idiosyncratic variables by OLS, the following conclusions can be easily obtained. Urban households in Beijing and Shanghai are easier to become vulnerable compared with those living in Guangdong province. Different classes of annual salary income have different effects on households' vulnerability in urban China. Social capital is more powerful to decrease households' vulnerability in urban China than households' size.

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