

Households as Corporate Firms

This investigation proposes a conceptual framework for measurement necessary for an analysis of household finance and economic development. The authors build on and, where appropriate, modify corporate financial accounts to create balance sheets, income statements, and statements of cash flow for households in developing countries, using integrated household surveys. The authors also illustrate how to apply the accounts to an analysis of household finance that includes productivity of household enterprises, capital structure, liquidity, financing, and portfolio management. The conceptualization of this analysis has important implications for measurement, questionnaire design, the modeling of household decisions, and the analysis of panel data.

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Households as Corporate Firms

An Analysis of Household Finance Using
Integrated Household Surveys and Corporate
Financial Accounting

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*To Khun Sombat Sakuntasathien and
the staff at the Thai Family Research Project*

“When you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meager and unsatisfactory kind: it may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of science.”

Lord Kelvin, 1891–4

“The only way to obtain measures [of income and consumption] is by imposing an accounting framework on the data, and painstakingly constructing estimates from myriad responses to questions about the specific components that contribute to the total.”

Angus Deaton, 1997

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Preface

This monograph emerged from our efforts to study the behavior of the households from the Townsend Thai Monthly Survey. This experience convinced us that imposing an accounting framework and creating financial statements would be a useful, indeed a necessary, first step for the analysis of household finance, especially from high-frequency, monthly data. We believe that this accounting framework will help researchers better define and more accurately measure household income, consumption, saving, and other financial variables, and in the end enhance our understanding of the behavior of the households in developing countries. As we illustrate in this monograph, the corporate accounting framework also allows us to apply the concepts of corporate financial analysis and theories in corporate finance to the study of household behavior. It is important to emphasize that although some specific, arbitrary decisions have to be made when we work with survey data such as those from the Townsend Thai Monthly Survey in this monograph, the accounting framework in general is not specific to any survey. The accounting framework could be largely applied to other household surveys in developing countries.

The work on this monograph began when both of us were at the University of Chicago. The early idea benefited from our conversation with former students in the Townsend research group, especially Masayuki Tachiiri. Subsequently, Nick Bloom, Angus Deaton, Takeo Hoshi, Costas Meghir, Jonathan Morduch, Chris Woodruff, the editor (Andrew Chesher), and three anonymous referees have provided detailed comments and suggestions, at various stages of the project.

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We have also benefited from the comments from seminar participants at the Massachusetts Institute of Technology (MIT), Princeton University, the University of California at San Diego, the University of Thai Chamber of Commerce in Bangkok, and the Ministry of Finance of Thailand, as well as students at the University of Chicago and MIT. Anan Pawasutipaisit and Archawa Paweenawat were a tremendous part of writing the code to extract data from monthly surveys consistent with the conceptualization of the accounts. Each is now using and further refining the data from these accounts in their papers on household enterprises and trade, respectively. Hiroyuki Yamada helped impute the returns on household labor, allowing us to adjust our measures of return on household assets and wealth. Parts of this monograph were previously circulated as a working paper under the title “Households as Corporate Firms: Constructing Financial Statements from Integrated Household Surveys.”

We are grateful to Angus Deaton for his contributions to the measurement of household behavior in developing countries. This is the foundation on which this monograph is built, and we hope that the framework proposed here addresses some of the issues he has raised. We also would like to thank Khun Sombat Sakuntasathien and the staff at the Thai Family Research Project (TFRP) in Thailand. Over the years, they have tirelessly and painstakingly conducted field surveys for the Townsend Thai Project, which yielded the data we use in this monograph. Anna Paulson played an important role in the original design of the instruments and early implementation. Scott Parris and Adam Levine of Cambridge University Press and Bindu Vinod of Newgen Imaging Systems provided excellent assistance throughout the publishing process. We gratefully acknowledge financial support from the National Institutes of Health, the National Science Foundation, the John Templeton Foundation, the Bill and Melinda Gates Foundation through the University of Chicago Consortium on Financial Systems and Poverty, and the University of California at San Diego. The findings and conclusions contained in this monograph are ours and do not necessarily represent the views of our funders. All remaining errors are our own.