

Abstract:

This paper provides two pieces of evidence that suggest that international risk sharing among OECD countries is very high or has been substantially improved over time. For the first evidence, we measure comovement of consumption smoothing by decomposing the measure into common, group and country-specific components. The empirical results show that there is a very high degree of comovement of consumption smoothing among OECD countries with more than 90% of total variation of consumption smoothing accounted for by the two external components. For the second evidence, we construct a theoretical model in which the derived equation shows that idiosyncratic consumption growth is a sum of external and country-specific consumption shocks. The derived equation allows us to generalize two strands of empirical literature on risk sharing and empirically conclude that OECD countries have been improving risk sharing substantially.