

The Role of Risk Attitudes and Networks on the Migration Decision: Empirical Evidence from the United States

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Abstract : A large body of literature has discussed the determinants of migration decision. However, the potential role of individual risk attitudes on migration decision has so far been overlooked. The research on migration literature has studied how the expected income differential influences migration flows for a risk neutral individual. However, migration takes place when there is no expected income differential or even the variability of income appears as lower than in the current location. This migration puzzle motivates a recent trend in the literature that analyzes how attitudes towards risk influence the decision to migrate. However, the significance of risk attitudes on migration decision has been addressed mostly in a theoretical perspective in the mainstream migration literature. The efficient outcome of labor market and overall economy are largely influenced by migration in many countries. Therefore, attitudes towards risk as a determinant of migration should get more attention in empirical studies. To author's best knowledge, this is the first study that has examined the relationship between relative risk aversion and migration decision in US market. This paper considers movement across United States as a means of migration. In addition, this paper also explores the network effect due to the increasing size of one's own ethnic group to a source location on the migration decision and how attitudes towards risk vary with network effect. Two ethnic groups (i.e. Asian and Hispanic) have been considered in this regard. For the empirical estimation, this paper uses two sources of data: 1) U.S. census data for social, economic, and health research, 2010 (IPUMPS) and 2) University of Michigan Health and Retirement Study, 2010 (HRS). In order to measure relative risk aversion, this study uses the 'Two Sample Two-Stage Instrumental Variable (TS2SIV)' technique. This is a similar method of Angrist (1990) and Angrist and Kruegers' (1992) 'Two Sample Instrumental Variable (TSIV)' technique. Using a probit model, the empirical investigation yields the following results: (i) risk attitude has a significantly large impact on migration decision where more risk averse people are less likely to migrate; (ii) the impact of risk attitude on migration varies by other demographic characteristics such as age and sex; (iii) people with higher concentration of same ethnic households living in a particular place are expected to migrate less from their current place; (iv) the risk attitudes on migration vary with network effect. The overall findings of this paper relating risk attitude, migration decision and network effect can be a significant contribution addressing the gap between migration theory and empirical study in migration literature.

Keywords : migration, network effect, risk attitude, U.S. market

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