Household Shocks, Consumption and Remittance: A Case of Liberia

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Most researches define shock is a sudden or surprise event that has a setback on consumption, therefore the means through which household stabilizes consumption is a significant concern. This research examines the role of remittance on consumption when households are affected by shock. There have been several kinds of research that discuss different types of shocks on household consumption. This research takes a keen interest to investigate how different categories of shock, depending on how wide affects household consumption. Also, with the various problems in transferring money to developing counties and the introduction of mobile money, there has been an increase in domestic remittance. However, this paper examines the impact of remittance on consumption in two different aspects. The first part examines remittance in general, which is both international and domestic remittance (remittance in general), while the second part examines only domestic remittance impact on consumption.

Using the 2014 and 2016 dataset of the Liberia Income and Expenditure Survey, the analysis conducted in the research was a cross-analysis with a total sample size of 4,867 households. Quite strangely, the result shows that there is a probability that households insured their consumption by 7 percent when they were affected by shock. Also, it shows that remittance in general and domestic remittance has a positive impact on food consumption. The result reveals that domestic remittance reduces food limitation by 0.2 percent while remittance in general, reduced food limitation by 3 percent. However, there is a probability that those households that were affected by shock and received domestic remittance and remittance in general, food limitation reduced by 7 percent and 13, respectively.

Also, this paper investigates the impact on the various category of shock and how the width of the spread of shock could affect consumption. The result shows that both remittances reduce food limitation when households are affected by idiosyncratic shock, but there is no evidence that remittance reduces food limitation when families are affected by covariate shock. Therefore, those that receive remittance in general or domestic remittance and experience shock that affected them alone, there is a probability that food limitation reduces by 22 percent and 8 percent, respectively.

These results emphasize the importance of remittance and the need to make those Liberians that are outside the country comfortable to invest back home.