Abstract

Recent empirical work has shown that ongoing international financial integration facilitates cross-country consumption risk-sharing. These studies typically find that countries with high equity home bias exhibit relatively low international consumption risk sharing. We extend this line of research and demonstrate that it is not only a country's equity home bias that prevents consumption risk sharing. In addition, the composition of a country's foreign asset portfolio plays an important role. Using panel-data regression for a group of OECD countries over the period 1980-2007, we show that foreign investment bias has additional explanatory power for consumption risk sharing.