

# Vulnerability to Downside Risk and Poverty in Vietnam

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## **Abstract**

In this paper we propose a new measure of vulnerability called vulnerability to downside risk. The relevant benchmark for this new measure is the current level of wellbeing of a household as opposed to another benchmark such as the poverty line. Furthermore, we develop a new procedure in order to truly empirically estimate vulnerability as a probability weighted average of state of the world-specific deprivation indices. We argue that both the new measure and the new estimation procedure add value to ongoing vulnerability research. Using the new empirical approach we compute vulnerability to downside risk and poverty for rural households in Vietnam and show that the new measure of vulnerability to downside risk offers useful insights into the analysis of (negative) consumption dynamics.

**Key words:** Vulnerability, Poverty, Risk, Risk Perception

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