

ABSTRACT

Savings serve as a crucial financial instrument that functions as a precautionary measure when household income declines, aiming to maintain consumption stability and fulfill children's needs to maximize utility. This study examines the impact of the number of children (fertility) on household savings and tests the validity of the Life Cycle Hypothesis in Indonesia

The research utilizes data from the Indonesian Family Life Survey (IFLS), employing the Ordinary Least Squares (OLS) method and Instrumental Variable (IV) approach to address endogeneity bias. The results indicate that the number of children negatively affects household savings, which aligns with the Life Cycle Model of Fertility. These findings reinforce evidence that an increase in the number of children reduces a household's ability to save. Furthermore, the study confirms that the Life Cycle Hypothesis holds in Indonesia, exhibiting an inverted U-shaped pattern when analyzed through wealth and saving stock perspectives.

The findings imply that household savings behavior in Indonesia follows a life-cycle pattern consistent with economic theory—savings tend to be low in early and late life stages but rise during peak productive years. This study contributes significantly to understanding household saving behavior in Indonesia and supports the validity of the Life Cycle Hypothesis in the context of household economics in developing countries.

Keyword: Fertility, Consumption, Life Cycle Hypothesis, Income, Household Saving

JEL: D15, E21, G51, J13

