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Financial markets  
 General Financial Markets: General (includes Measurement and Data)  
 Income  
 Inflation  
 Institutional Investors  
 Investment & securities  
 Investment Decisions  
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 Macroeconomics: Consumption  
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 Multiple or Simultaneous Equation Models: Models with Panel Data  
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Sommario/riassunto	This paper investigates the increasing exposure of European households to risky financial assets and the consequent impact on the economy. I analyze household data for Italy and the United Kingdom, countries that differ dramatically in their financial structure and capital markets. I estimate an endogenous switching model with bivariate switching to overcome two important obstacles in this line of research, namely, the consumption Capital Asset Pricing Model Puzzle and the excess sensitivity puzzle. The results show that there are wealth effects in both countries. I find some evidence of liquidity constraints only in Italy and habit formation exclusively in the United Kingdom.