Consumption and Saving

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Second Half of Winter Semester 2009/10
Room 1.28 (Shanghai) in House of Finance

Description
This class is intended to help second year PhD students develop a research question in an area of the microfoundations of macroeconomics, and acquire some of the skills needed to answer interesting research question. The main focus of the course is on empirical work. We will discuss empirical papers that evaluate the usefulness of standard consumption models, or derive empirical facts that these models cannot easily explain, and that thus lead to extensions of the standard models. You will get familiar with the most heavily used data sets in this research area, and we will discuss both reduced form and structural estimation techniques. The models underlying the empirical exercises are mostly heterogeneous agents models. This is a very active and fascinating line of research. Many questions in macroeconomics cannot be answered satisfyingly with a representative agent model. We will hence look at models that explicitly take into account heterogeneity of households, and will analyze aggregate implications of microeconomic non-linearities. Emphasis will also be put on dynamic programming techniques.

Readings
There is no required textbook for this part of the class. The syllabus contains links to the readings. The readings marked with a star are the ones that we will primarily discuss. I always also list further references.

Requirements
There are three components to the assessment for this class.

The first and most important component is a short paper on a topic broadly related to the class. The goal of the paper is to encourage you to learn some hands-on lessons about the process of doing research. The minimal requirement is to replicate empirical results or a calibration exercise from a paper in the literature. Obviously, more ambitious exercises are welcome. You should start talking to me about your ideas as soon as possible, and definitely before the due date for the proposal. The proposal should be two pages long, and contain a detailed outline of what you plan to do. For example, if you plan to replicate an empirical paper or work on an empirical topic of your own, your proposal
should describe the relevant data sources, and demonstrate that you have access to them. During the last class, everyone is required to do a short presentation on his or her research idea. I want to give you the opportunity to get feedback from your colleagues, and to get to know what other people are working on.

*Important dates for the paper*

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>Jan 12</td>
<td>Proposal for paper is due</td>
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<tr>
<td>Feb 9</td>
<td>In-class presentations of papers</td>
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<tr>
<td>April 12</td>
<td>Final version of paper is due</td>
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Second, there will be two assignments involving computer exercises. The first will be an empirical assignment, for which I will provide you with a Stata dataset. For the second exercise, you will get a short Matlab-program that you will have to modify (or, of course, you can write a completely new program on your own).

*Problem sets dates*

1. Problem set: handed out on 12/8, due on 12/15
2. Problem set: handed out on 12/15, due on 12/22

Third, you should pick a paper that especially interests you from the syllabus, and present it to the class. I will circulate a sign up sheet for presentations in the first class.
I. Introduction, and Puzzles in Consumption Theory: Excess Smoothness, Excess Sensitivity, and the Comovement of Consumption and Income


II. Liquidity Constraints and Precautionary Savings


* Carroll, Christopher (2001): Death to the Log-Linearized Consumption Euler Equation! (And Very Poor Health to the Second-Order Approximation), Advances in Macroeconomics, 1(1).


III. Structural Estimation of a Life Cycle Consumption Model


IV. The Skewness of the Wealth Distribution


V. Consumption and Leisure Inequality


VI. Durability and Consumption Commitments


Sinai, Todd, and Nicholas S. Souleles (2005): Owner-Occupied Housing as a Hedge Against Rent Risk, Quarterly Journal of Economics, 120(2), 763-789.


**VII. Retirement**


