

Consumption and Saving

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Office hours: Thursdays 1-2 pm and by appointment

Second Half of Winter Semester 2009/10

Tuesdays 14.00-17.15 (12/8/2009 to 2/9/2010)

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

Jan 12:	Proposal for paper is due
Feb 9:	In-class presentations of papers
April 12:	Final version of paper is due

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

* Attanasio, Orazio P. and Guglielmo Weber (1995): [Is Consumption Growth Consistent with Intertemporal Optimization? Evidence from the Consumer Expenditure Survey](#), *Journal of Political Economy*, 103(6), 1121-1157.

Attanasio, Orazio P. and Guglielmo Weber (1993): [Consumption Growth, the Interest Rate and Aggregation](#), *Review of Economic Studies*, 60(3), 631-649.

Baxter, Marianne and Urban J. Jermann (1999), [Household Production and the Excess Sensitivity of Consumption to Current Income](#), *American Economic Review*, 89(4), 902-920.

Blundell, Richard, Luigi Pistaferri and Ian Preston (2005): [Imputing Consumption in the PSID Using Food Demand Estimates from the CEX](#), Institute for Fiscal Studies WP04/27.

* Browning, Martin, and Dolores Collado (2001): [The Response of Expenditures to Anticipated Income Changes: Panel Data Estimates](#), *American Economic Review*, 91(3), 681-692.

Carroll, Christopher D., and Lawrence H. Summers (1991): Consumption Growth Parallels Income Growth: Some New Evidence, in: *National Saving and Economic Performance*, ed. by B. Douglas Bernheim, and John B. Shoven. Chicago University Press, Chicago.

Deaton, Angus (1993): [Understanding Consumption](#), Oxford University Press.

Fuchs-Schündeln, Nicola (2008): [The Response of Household Saving to the Large Shock of German Reunification](#), *American Economic Review*, 98(5), 1798–1828.

* Hsieh, Chang-Tai (2003): [Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund](#), *American Economic Review*, 93(1), 397-405.

* Johnson, David, Jonathan Parker and Nicholas S. Souleles (2006): [Household Expenditure and the Income Tax Rebates of 2001](#), *American Economic Review*, 96(5), 1589-1610.

Shea, John (1995): [Union Contracts and the Life Cycle-Permanent Income Hypothesis](#), *American Economic Review*, 85(1), 186-200.

II. Liquidity Constraints and Precautionary Savings

Browning, Martin, and Annamaria Lusardi (1996): [Household Saving: Micro Theories and Micro Facts](#), Journal of Economic Literature, 34(4), 1797-1855.

* 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).

* Carroll, Christopher D. (2001): [A Theory of the Consumption Function, With and Without Liquidity Constraints](#), Journal of Economic Perspectives, 15(3).

* Carroll, Christopher D. and Andrew A. Samwick (1998): [How Important Is Precautionary Saving?](#), Review of Economics and Statistics, 80(3), 410-419.

Carroll, Christopher D. and Andrew A. Samwick (1997): [The Nature of Precautionary Wealth](#), Journal of Monetary Economics, 40(1), 41-71.

Carroll, Christopher D.: Solving Microeconomic Dynamic Stochastic Optimization Problems. Lecture Notes.

Deaton, Angus (1991): [Saving and Liquidity Constraints](#), Econometrica, 59(5), 1221-1248.

Dynan, Karen E. (1993): [How Prudent Are Consumers?](#), Journal of Political Economy, 101(6), 1104-1113.

Fuchs-Schündeln, Nicola, and Matthias Schündeln (2005): [Precautionary Savings and Self-Selection – Evidence from the German Reunification “Experiment”](#), Quarterly Journal of Economics, 120(3), 1085-1120.

* Gross, David B. and Nicholas S. Souleles (2002): [Do Liquidity Constraints and Interest Rates Matter for Consumer Behavior? Evidence from Credit Card Data](#), Quarterly Journal of Economics, 117(1), 149-185.

Ludvigson, Sydney, and Christina H. Paxson (2001): [Approximation Bias in Linearized Euler Equations](#), Review of Economics and Statistics, 83(2), 242-56.

Ludvigson, Sydney C. and Alexander Michaelides (2001): [Does Buffer-Stock Saving Explain the Smoothness and Excess Sensitivity of Consumption?](#), American Economic Review, 91(3), 631-647.

Parker, Jonathan and Bruce Preston (2005): [Precautionary Saving and Consumption Fluctuations](#), American Economic Review, 95(4), 1119-1143.

III. Structural Estimation of a Life Cycle Consumption Model

Cagetti, Marco (2003): [Wealth Accumulation Over the Life Cycle and Precautionary Savings](#), Journal of Business and Economic Statistics, 21(3), 339-353.

De Nardi, Mariacristina, Eric French, and John Bailey Jones (2009): [Why do the Elderly Save? The Role of Medical Expenses](#), NBER WP 15149.

* French, Eric (2005): [The Effects of Health, Wealth and Wages on Labor Supply and Retirement Behavior](#), Review of Economic Studies, 72(2), 395-427.

* Gourinchas, Pierre-Olivier and Jonathan A. Parker (2002): [Consumption over the Life Cycle](#), Econometrica, 70(1), 47-89.

Laibson, David, Andrea Repetto, and Jeremy Tobacman (2007): [Estimating Discount Functions from Lifecycle Consumption Choices](#), NBER WP 13314.

IV. The Skewness of the Wealth Distribution

* Aiyagari, S. Rao (1994): [Uninsured Idiosyncratic Risk and Aggregate Saving](#), Quarterly Journal of Economics, 109(3), 659-684.

* Castaneda, Ana, Javier Diaz-Gimenez and Jose-Victor Rios-Rull (2003): [Accounting for Earnings and Wealth Inequality](#), Journal of Political Economy, 111(4), 818-857.

De Nardi, Mariacristina (2004): [Wealth Inequality and Intergenerational Links](#), Review of Economic Studies, 71(3), 743-768.

* De Nardi, Mariacristina, and Marco Cagetti (2006): [Entrepreneurship, Frictions, and Wealth](#), Journal of Political Economy, 114(5), 835-870.

Dynan, Karen, Jonathan Skinner and Stephen Zeldes (2004): [Do the Rich Save More?](#), Journal of Political Economy, 112(2), 397-444.

Hubbard, Glenn, Jonathan Skinner and Stephen Zeldes (1995): [Precautionary Saving and Social Insurance](#), Journal of Political Economy, 103(2), 360-399.

Huggett, Mark (1996): [Wealth Distribution in Life-Cycle Economies](#), Journal of Monetary Economics, 38(3), 469-494.

Huggett, Mark, and Gustavo Ventura (2000): [Understanding Why High Income Households Save More Than Low Income Households](#), Journal of Monetary Economics, 45(2), 361-397.

* Krusell, Per and Anthony Smith (1998): [Income and Wealth Heterogeneity in the Macroeconomy](#), Journal of Political Economy, 106(5), 867-896.

Krusell, Per and Anthony A. Smith (1999): [On the Welfare Effects of Eliminating Business Cycles](#), Review of Economic Dynamics, 2(1), 245-272.

Quadrini, Vincenzo (2000): [Entrepreneurship, Saving and Social Mobility](#), Review of Economic Dynamics, 3(1), 1-40.

Quadrini, Vincenzo (1999): [The Importance of Entrepreneurship for Wealth Concentration and Mobility](#), Review of Income and Wealth, 45(1), 1-19.

V. Consumption and Leisure Inequality

Attanasio, Orazio, Erich Battistin and Hidehiko Ichimura (2004): [What Really Happened to Consumption Inequality in the US?](#), NBER WP 10338.

Attanasio, Orazio and Davis, S. (1996): [Relative Wage Movements and the Distribution of Consumption](#), Journal of Political Economy, 104(6), 1227-1262.

* Blundell, R. and Preston, I. (1998): [Consumption Inequality and Income Uncertainty](#), Quarterly Journal of Economics, 113(2), 603-640.

Deaton, Angus and Christina Paxson (1994): [Intertemporal Choices and Inequality](#), Journal of Political Economy, 102(3), 437-468.

Heathcote, Jonathan, Kjetil Storesletten, and Gianluca Violante (2004): [The Macroeconomic Implications of Rising Wage Inequality in the United States](#), mimeo.

* Hurst, Erik and Mark Aguiar (2007): [Measuring Trends in Leisure: The Allocation of Time Over Five Decades](#), Quarterly Journal of Economics, 122(3), 969-1006.

* Krueger, Dirk and Fabrizio Perri (2003): [On the Welfare Consequences on the Increase in Inequality in the US](#), NBER Macroeconomics Annual, 83-121. Comments by Steve Davis and Kjetil Storesletten

VI. Durability and Consumption Commitments

Campbell, John and Joao Cocco (2007): [How Do House Prices Affect Consumption? Evidence from Micro Data](#), Journal of Monetary Economics, 54(3), 591-621.

* Chetty, Raj and Adam Szeidl (2007): [Consumption Commitments and Risk Preferences](#), Quarterly Journal of Economics, 122(2), 831-877.

* Fernandez-Villaverde, Jesus and Dirk Krueger (2007): [Consumption and Saving over the Life Cycle: How Important are Consumer Durables?](#), 89(3), 552-565.

Kiyotaki, Nobuhiro, and John Moore (1997): [Credit Cycles](#), Journal of Political Economy, 105(2), 211-248.

Postlewaite, Andrew, Larry Samuelson and Dan Silverman (2008): [Consumption Commitments and Employment Contracts](#), 75(2), 559-578.

Reis, Ricardo (2006): [Inattentive Consumers](#), Journal of Monetary Economics, 53(8), 1761-1800.

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

* Sinai, Todd and Stephen S. Shore (2008): [Commitment, Risk, and Consumption: Do Birds of a Feather Have Bigger Nests?](#), Review of Economics and Statistics, forthcoming.

VII. Retirement

Aguiar, Mark and Erik Hurst (2009): [Deconstructing Lifecycle Expenditure](#), NBER WP 13893.

* Aguiar, Mark and Erik Hurst (2007): [Lifecycle Prices and Production](#), American Economic Review, 97(5), 1533-1559

Aguiar, Mark and Erik Hurst (2006): [Consumption vs. Expenditure](#), Journal of Political Economy, 113(5), 919-948.

Banks, James, Richard Blundell, and Sarah Tanner (1998): [Is There a Retirement-Saving Puzzle?](#), American Economic Review, 88(4), 769-788.

* Bernheim, Douglas, Jonathan Skinner, and Steven Weinberg (2001): [What Accounts for the Variation in Retirement Wealth among U.S. Households?](#), American Economic Review, 91(4), 832-857.

Haider, Steven, J., and Stephens Melvin Jr. (2007): [Is There a Retirement-Consumption Puzzle? Evidence from Subjective Retirement Expectations](#), Review of Economics and Statistics, 89(2), 247-264

* Laibson, David, Andrea Repetto and Jeremy Tobacman (1998): [Self-Control and Saving for Retirement](#), Brookings Papers on Economic Activity, 1998(1), 91-196.