Consumption: Theory and Empirics

Prof. Nicola Fuchs-Schündeln, Ph.D.
Goethe University Frankfurt
fuchs@wiwi.uni-frankfurt.de

Description
This class is intended to introduce PhD students to models of consumption. We will discuss empirical papers that evaluate the usefulness of standard consumption models (especially the Permanent Income Hypothesis), 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. We will 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.
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


