

EFFECT OF ADDED WEALTH

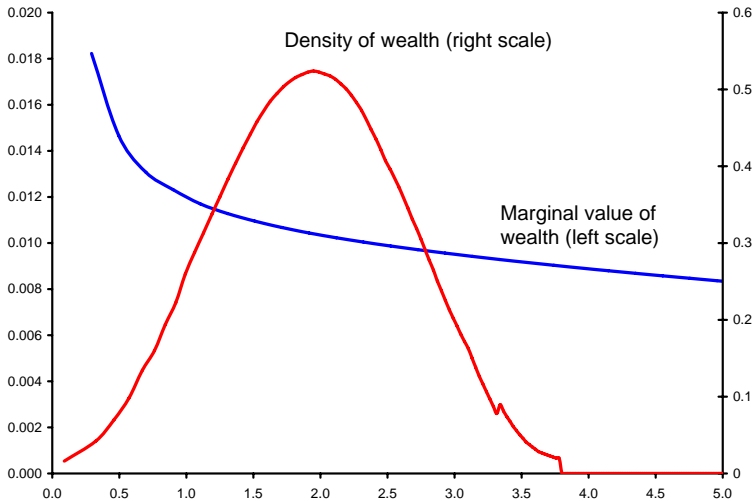
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MARGINAL VALUE OF WEALTH



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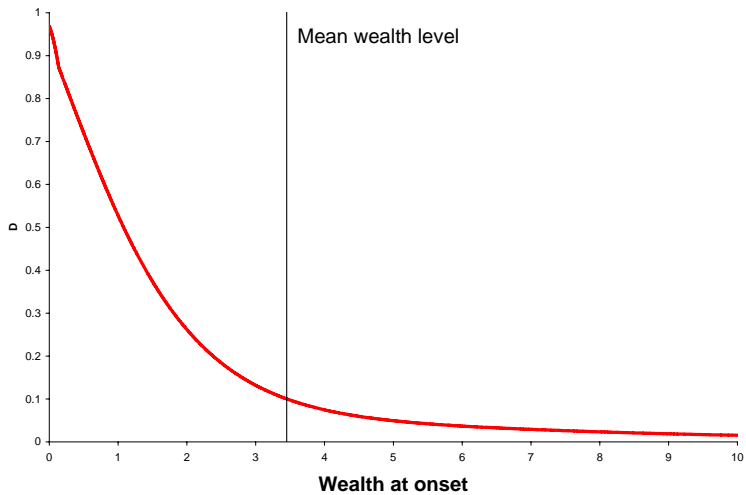
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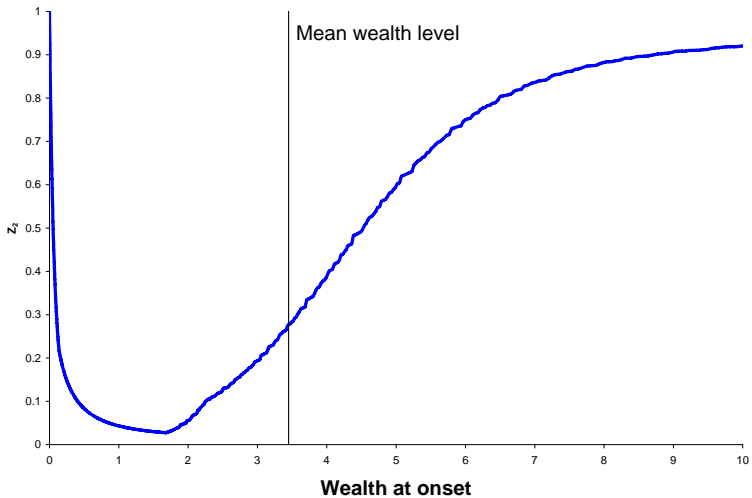
$$D = \frac{(c^u)^{-2} - (c^e)^{-2}}{(c^u)^{-2}}$$

$$\frac{c^u}{c^e} = (1 - D)^{1/2} = 0.91$$

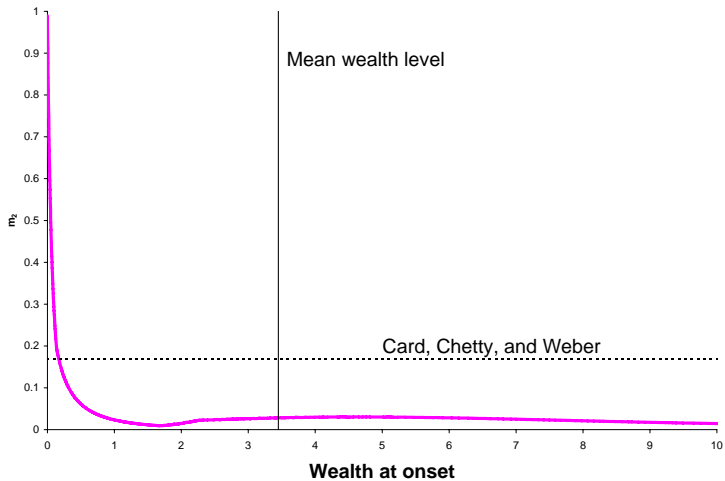
D



Z



M



EVIDENCE ON CONSUMPTION REDUCTION

Martin Browning and Thomas F. Crossley

“Unemployment insurance benefit levels and consumption changes”

J. Pub. Econ, 2001, p. 10

Among our sample of unemployed respondents the mean consumption fall ... was 14%. Some 10% of the sample reported falls of 50% of the current level (equivalently, 33% of the lagged level) or more, while more than a quarter reported no change or consumption growth.

CHRIS CARROLL:

Unfortunately the literature since Hall and Mishkin has not settled on any consensus about a 'hand-to-mouth' fraction of households - some papers (Jonathan Parker's and Nick Souleles's papers in the *AER* a few years ago) tend to find a substantial amount of predictability in $\Delta C = \alpha E[\Delta Y]$ kinds of regressions, while others (Martin Browning and Chiang-Tai Hsieh's papers) have found no relationship between predictable changes in income and those in consumption.

CHRIS CARROLL:

The latest salvo (and I think one of the nicest) is Johnson, Parker, Souleles, which looks at the 2002-2003 Bush tax “refunds” and finds big effects on the timing of expenditures coming from the timing of receipt of the refunds. If you want to look at one paper, that’s the one. But it has to be admitted that it’s hard to reconcile with the Browning and Hsieh papers, and some others.

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Intratemoral first-order condition:

Elasticity of consumption w.r.t. hours =

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$$\text{Elasticity of consumption w.r.t. hours} = \frac{0.5}{0.7} = 0.71$$

WORK REDUCTION

Figure 5a

Effect of Severance Pay on Nonemployment Durations



IMPLICATIONS

Reduction in hours: $\frac{10 \text{ days}}{150 \text{ days}} = 6.7 \text{ percent}$

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Marginal propensity to consume = $\frac{4.8}{53.8} = 0.089$

WAGE DIFFERENCES

Figure 10a

Effect of Severance Pay on Subsequent Wages



