

Syllabus

The Economics of Consumption

SPRING 2024

Instructor: Yu-Chi Chu

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Office Hours: TBA

Exam date: TBA

Course Description

This course provides an overview of the research on saving and consumption. Students will be familiar with consumption-saving decisions in a stochastic environment. Since the marginal propensity to consume (MPC) matters for the propagation of macro shocks and the effects of fiscal and monetary policies, we focus on the determinants of MPC — out of anticipated income change, and unexpected transitory or permanent income change. Another focus is on the link between models and data. Students will learn to derive testable implications of different consumption models and know how the literature evaluate models with empirical findings.

Course Requirements

- Students need to take one exam.

- Students need to present a paper and participate in the discussion for other students' presentations.
- A short-term paper

Required readings

Textbooks

- The Economics of Consumption: Theory and Evidence by Jappelli and Pistaferri
- Dynamic fiscal policy, by Auerback and Kotikoff

Papers

- Complete markets:
 - Cochrane, J. H. (1991). A simple test of consumption insurance. *Journal of political economy*, 99(5), 957-976.
 - Altonji, J. G., Hayashi, F., & Kotlikoff, L. J. (1992). Is the Extended Family Altruistically Linked? Direct Tests Using Micro Data. *The American Economic Review*, 1177-1198.
- Partial insurance
 - Blundell, R., Pistaferri, L., & Preston, I. (2008). Consumption inequality and partial insurance. *American Economic Review*, 98(5), 1887-1921.
 - Kaplan, G., & Violante, G. L. (2010). How much consumption insurance beyond self-insurance?. *American Economic Journal: Macroeconomics*, 2(4), 53-87.

- Kaplan, G., & Violante, G. L. (2014). A model of the consumption response to fiscal stimulus payments. *Econometrica*, 82(4), 1199-1239.
- Krueger, D., & Perri, F. (2006). Does income inequality lead to consumption inequality? Evidence and theory. *The Review of Economic Studies*, 73(1), 163-193.
- Gourinchas, P. O., & Parker, J. A. (2002). Consumption over the life cycle. *Econometrica*, 70(1), 47-89.

Course Outlines

This is the course schedule from last year. I will provide you with an updated version during the first week of the semester.

Table 1: Course Schedule

Date	Topics	Required Reading
2/22	Course introduction	
3/1	Intertemporal choice under certainty	JP Chapter 1
3/8	Intertemporal choice under certainty	JP Chapter 1
3/15	The Age Profile of Consumption and Wealth	JP Chapter 2
3/22	Complete market	JP Chapter 3
3/29	Certainty Equivalence Model	JP Chapter 4
4/12	Precautionary Saving Model	JP Chapter 6
4/19	Overlapping generation model	AK chapter 2 and 3
4/26	MPC and Labor market risks stylized facts	
5/3	Other topics	
5/10	Exam	
5/17	Other topics, and Presentation 1	
5/24	Presentation 2, 3	
5/31	Presentation 4, 5	
6/7	No class	

Group presentation

Last year, students presented the following paper as a group, with each group presenting one paper. This year, there might be changes to the selection of papers, and I will let you know during the first week of the semester.

- Puzzles:
 - Hubbard, R. Glenn, Jonathan Skinner, and Stephen P. Zeldes. “Precautionary saving and social insurance.” *Journal of political Economy* 103.2 (1995): 360-399.

- Lockwood, Lee M. “Bequest motives and the annuity puzzle. ” *Review of economic dynamics* 15.2 (2012): 226-243.
- The wealth-hand-to-mouth:
 - Kaplan, Greg, Giovanni L. Violante, and Justin Weidner. *The wealthy hand-to-mouth*. No. w20073. National Bureau of Economic Research, 2014.
- Measuring MPC:
 - Blundell, R., Pistaferri, L., & Preston, I. (2008). *Consumption inequality and partial insurance*. *American Economic Review*, 98(5), 1887-1921.
- Human capital, Consumption, and Credit constraint:
 - Lochner, Lance J., and Alexander Monge-Naranjo. “The nature of credit constraints and human capital.” *American economic review* 101.6 (2011): 2487-2529.