



## International Finance Discussion Papers: Consumption Response to Expected Future Income

By Laurie Pounder

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*.This paper shows empirical evidence in favor of forward-looking household consumption--that consumption today depends directly on household-specific ex-ante expectations of future income. This analysis is unique in using a direct consumption measure combined with an ex-ante household-specific measure of expected future income, constructed from detailed survey and administrative data on Social Security, pensions, and retirement plans. Households with high expected future income spend more today than households that have lower future income but identical current income and net worth. Omitting household-specific future income can cause mis-estimation of key consumption questions. Furthermore, when all three resources for consumption (current income, net worth, and future income) are accounted for, the average propensity to spend out of current income is similar to predictions of optimal consumption under uncertainty in a dynamic stochastic model, although the propensities to spend out of accumulated net worth and expected future income are notably lower in the data than the optimal model. Finally, these data also provide evidence on the effect of risk on consumption while controlling for all three resources. Households with high measured risk...



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