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Topics in Household Finance: Part I

A. Description

These lectures apply dynamic programming techniques to household financial choices including: intertemporal consumption, portfolio adjustment and durable expenditures. The lectures will **not** cover the impact of these choices for the conduct of fiscal and monetary policy.

B. Requirements

You are expected to: (i) attend all lectures, either in person or on zoom, (ii) to have read the papers that underlie the lectures prior to class and (iii) to complete a 10 page research paper, structured like the summer report, on a household finance topic. Details on this requirement will be posted on the Brightspace page.

C. Course Plan

This is a preliminary schedule for part I of the course and might be modified as the term progresses. Each lecture will be based upon one article, indicated in bold. Key articles are indicated by a *.

Lecture 1: **Household Finance: Portfolio Choice**

1. Adda-Cooper, Chapt. 6.
2. Alan, Sule. "Entry costs and stock market participation over the life cycle." *Review of Economic Dynamics* 9, no. 4 (2006): 588-611.
3. **Ampudia, M. and R. Cooper and J. LeBlanc and G. Zhu, "MPC Heterogeneity in Europe: Sources and Consequences", NBER Working Paper #25082.**[Focus on specification and estimation of household portfolio choice.]
4. Bonaparte, Yosef, Russell Cooper, and Guozhong Zhu. "Consumption smoothing and portfolio rebalancing: The effects of adjustment costs." *Journal of Monetary Economics* 59, no. 8 (2012): 751-768.
5. *Carroll, Christopher D. "Buffer-stock saving and the life cycle/permanent income hypothesis." *The Quarterly journal of economics* 112, no. 1 (1997): 1-55.
6. Carroll, Christopher D., and Miles S. Kimball. "On the concavity of the consumption function." *Econometrica: Journal of the Econometric Society* (1996): 981-992.

7. *Cooper, R. and G. Zhu, “Household finance over the life-cycle: What does education contribute?” *Review of Economic Dynamics*, 20 (2016), 63-89.

8. *Eichenbaum, M., Hansen, L. and K. Singleton, " A Time Series Analysis of Representative Agent Models of Consumption and Leisure Choice under Uncertainty," *Quarterly Journal of Economics*, 103 (1988), 51-78.

9. *Gourinchas, P. and J. Parker, "Consumption over the Life Cycle", *Econometrica*, 70 (2002), 47-89.

10. Guiso, Luigi, Michael Haliassos, and Tullio Jappelli. "Household stockholding in Europe: where do we stand and where do we go?." *Economic Policy* 18, no. 36 (2003): 123-170.

11. Haliassos, Michael, and Carol C. Bertaut. "Why do so few hold stocks?.” *The Economic Journal* (1995): 1110-1129.

12. * Hall, R. "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy*, 86 (1978), 971-87.

13. * Hansen, L. and K. Singleton, "Generalized Instrumental Variables Estimation of Nonlinear Rational Expectations Models," *Econometrica*, 50 (1982), 1269-86.

14. *Krusell, Per, and Anthony A. Smith, Jr. "Income and wealth heterogeneity in the macroeconomy." *Journal of political Economy* 106, no. 5 (1998): 867-896.

Lectures 2/3 **Housing**

1. **Bajari, Patrick, Phoebe Chan, Dirk Krueger, and Daniel Miller. "A dynamic model of housing demand: Estimation and policy implications." *International Economic Review* 54, no. 2 (2013): 409-442.**

2. **Cloyne, James, Clodomiro Ferreira, and Paolo Surico. "Monetary policy when households have debt: new evidence on the transmission mechanism." *The Review of Economic Studies* 87, no. 1 (2020): 102-129.**

3. **Cocco, Joao F. "Portfolio choice in the presence of housing." *The Review of Financial Studies* 18, no. 2 (2004): 535-567.**

4. Eichenbaum, Martin, Sergio Rebelo, and Arlene Wong. State dependent effects of monetary policy: The refinancing channel. No. w25152. National Bureau of Economic Research, 2018.

5. Li, Wenli, Haiyong Liu, Fang Yang, and Rui Yao. "Housing over time and over the life cycle: a structural estimation." *International Economic Review* 57, no. 4 (2016): 1237-1260.

6. Mian, Atif, Kamalesh Rao, and Amir Sufi. "Household balance sheets, consumption, and the economic slump." *The Quarterly Journal of Economics* 128, no. 4 (2013): 1687-1726.

7. Kaplan, Greg, Kurt Mitman, and Giovanni L. Violante. *The housing boom and bust: Model meets evidence*. No. w23694. National Bureau of Economic Research, 2017. (*Journal of Political Economy*)

8. Kaplan, Greg, Kurt Mitman, and Giovanni L. Violante. "Non-durable consumption and housing net worth in the great recession: Evidence from easily accessible data." *Journal of Public Economics* (2020): 104176.

Lectures 4 **Household Durable Expenditures**

1. Adda-Cooper, Chapt. 7

2. ***Adda, J. and R. Cooper, "Balladurette and Juppette: A Discrete Approach," ***Journal of Political Economy*****, August, 2000.**[overlap with applied macro]

3. Alvarez, Fernando, Luigi Guiso, and Francesco Lippi. "Durable consumption and asset management with transaction and observation costs." *American Economic Review* 102, no. 5 (2012): 2272-2300.

4. Bertola, Giuseppe, Luigi Guiso, and Luigi Pistaferri. "Uncertainty and consumer durables adjustment." *The Review of Economic Studies* 72, no. 4 (2005): 973-1007.

5. *Caballero, Ricardo J. "Expenditure on durable goods: a case for slow adjustment." *The Quarterly Journal of Economics* 105, no. 3 (1990): 727-743.

6. Esteban, Susanna, and Matthew Shum. "Durable‐goods oligopoly with secondary markets: the case of automobiles." *The RAND Journal of Economics* 38, no. 2 (2007): 332-354.

7. Gavazza, Alessandro. "Leasing and secondary markets: Theory and evidence from commercial aircraft." *Journal of Political Economy* 119, no. 2 (2011): 325-377.

8. Gavazza, Alessandro, and Andrea Lanteri. "Credit shocks and equilibrium dynamics in consumer durable goods markets." *Economic Research Initiatives at Duke (ERID) Working Paper* 275 (2018).

9. House, Christopher L., and John V. Leahy. "An sS model with adverse selection." *Journal of Political Economy* 112, no. 3 (2004): 581-614.

10. * Mankiw, N.G. "Hall's Consumption Hypothesis and Durable Goods," Journal of Monetary Economics, 10 (1982), 417-25.

Lecture 5: **Borrowing Constraints**

1. Alvarez, Fernando, and Urban J. Jermann. "Quantitative asset pricing implications of endogenous solvency constraints." *The Review of Financial Studies* 14, no. 4 (2001): 1117-1151.

2. *Chatterjee, Satyajit, Dean Corbae, Makoto Nakajima, and José−Víctor Ríos−Rull. "A quantitative theory of unsecured consumer credit with risk of default." *Econometrica* 75, no. 6 (2007): 1525-1589.

3. **Cooper, "Notes on State Dependent Household Default" Nov. 2020.**

4. *Deaton, A. "Savings and Liquidity Constraints," *Econometrica,* 59 (1991), 1121-42.

5. *** Fernandez-Villaverde, Jesus, and Dirk Krueger. "Consumption and saving over the life cycle: How important are consumer durables?." *Macroeconomic dynamics* 15.05 (2011): 725-770.**

6. Hintermaier, Thomas, and Winfried Koeniger. "The method of endogenous gridpoints with occasionally binding constraints among endogenous variables." *Journal of Economic Dynamics and Control* 34, no. 10 (2010): 2074-2088.

7. *Zeldes, S. "Consumption and Liquidity Constraints: An Empirical Investigation," *Journal of Political Economy*, 97 (1989), 305-46.

8.

Lecture ∞: **Policy Implications**

1. *Greg Kaplan and Benjamin Moll and Giovanni L. Violante, 2018. "Monetary Policy According to HANK," *American Economic Review*, vol 108(3), pages 697-743.

2. *Kaplan, G. "Violante G. Weidner J.,(2014)'The Wealthy Hand to Mouth'." *Brookings Papers On Economic Activity*.