Consumption Smoothing and Intertemporal Substitution versus the Household Financial Squeeze in the Great Recession

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JRC Third Annual Conference
Princeton University

February 20, 2014
Household purchases dominated the movements of GDP in the Great Recession.
The Ratio of Consumption to Disposable Income
Real Household Liabilities
Burdens of Deleveraging as a Percent of Consumption
GOOGLE SEARCHES FOR “WITHDRAWAL PENALTY”
Indexes of Lending Standards Inferred from the FRB Senior Loan Officer Survey
\[ \Delta \log c_t = \sigma (d_t - \rho) \]
**INTERTEMPORAL SUBSTITUTION**

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**Intertemporal substitution**

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\(d_t\) captures the financial risk (correlation with marginal utility) of future consumption.
**INTERTEMPORAL SUBSTITUTION**

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Increase in $d_t$ alters consumption plans toward higher growth, and thus lower current consumption
Discount Rate for the S&P Stock-Price Index