MPC Heterogeneity and Household Balance Sheets

Discussion by Christopher Carroll\textsuperscript{1} and Matthew White\textsuperscript{2}

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How to Assess their Results? Vs Buffer Stock Model!

... ignoring illiquid assets, home equity altogether

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▶ MPX smaller for people with more liquid wealth
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▶ MPX smaller for larger shocks
MPX in first 6 months is extremely large
Quantitative Fit?

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- But $X$ is not $C$: Recent papers (Parker, others) find
  - Windfalls are spent to buy durable goods, on credit
  - $\implies$ MPX can be much greater than 1
- “Memories of the party I threw when I won the lottery” are a durable good!
Structural Estimation Targeting Table 9

Quick and dirty structural estimation targeting Table 9 results:
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- Calculate "secant MPX": average MPX over quantity of prize
## Results

<table>
<thead>
<tr>
<th>Lottery size quartile</th>
<th>Deposit quartile</th>
<th>Bottom</th>
<th>Second</th>
<th>Third</th>
<th>Top</th>
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<tbody>
<tr>
<td>Bottom</td>
<td></td>
<td>1.047</td>
<td>0.745</td>
<td>0.720</td>
<td>0.490</td>
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<td>Second</td>
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<td>0.762</td>
<td>0.640</td>
<td>0.559</td>
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<td>0.546</td>
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8 discrete $\beta$-types? Progress, but still fairly far ...

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<tr>
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$\hat{\beta} = 0.8148$, $\nabla = 0.1244$
Results

- Highly concave region of consumption function usually small
- Table 9 says all deposit quartiles on highly concave region
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- How can we explain these results? “Splurge”?
- Consumer automatically spends first $X$ of any lottery prize, behaves according to consumption function thereafter
- Maybe a literal splurge, maybe a mid-sized discrete good?
“Splurge” of $700? Pretty good fit.

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<td>(0.733)</td>
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<tr>
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<td>(0.651)</td>
<td>(0.619)</td>
<td>(0.555)</td>
<td>(0.416)</td>
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$\hat{\beta} = 0.8694$, $\nabla = 0.0957$