

**(34) Benjamin, John D., Chinloy, Peter, and G. Donald Jud. "Consumption, Real Estate and Financial Wealth." University of North Carolina Mimeo, 2003.**

The authors examine whether the differential reaction of consumers to changes in stock prices and house prices is a possible explanation for the robustness of consumption and aggregate demand when securities market decline during 2001, such that households offset declines in spending from falling stock prices by increased spending from real estate wealth.

The paper estimates the marginal propensities to consume from both housing and financial assets using US data for the period 1952-2001. When the variables are normalized by personal disposable income, the marginal propensity to consume from financial wealth is 0.023, while that of housing wealth is 0.079, and both are significant at the 1% level. A Wald test on the difference between the two coefficients indicates that the coefficients are not identical. When the variables are normalized by human capital income, the marginal propensity to consume from housing wealth is 0.157, while that from financial wealth is 0.025, and both are statistically significant at the 1% level. The Wald test indicates that the difference between the two is statistically significant at the 1% level. At the sample mean, 74% of total wealth is held in financial assets and 26% in real estate. Using these weights, the overall marginal propensity to consume from wealth is 3.8 cents per dollar.

As the marginal propensity to consume from housing assets is several times that from financial assets, the authors studied the implications of this result for the stabilization of the aggregate economy. The authors conducted a simulation that covers a period of sharp declines in the stock market and financial wealth after April 2001. The results show that the wealth effect from the financial markets is negative, but this negative wealth effect is countered by a positive wealth effect from households' holdings of real estate.

Possible explanations for restraints on consumption from financial wealth is that for most households the holding of financial wealth is restricted in accounts for pension and insurance, which cannot be easily withdrawn for current consumption, nor can they be used as collateral for borrowing. Also, the holding of unrestricted financial wealth is almost nonexistent among lower income families, and concentrated among high income households whose holdings within specific firms may also be restrictive. Moreover, tax policy has favored families concentrating their debt against their housing collateral. The authors thus conclude that as the marginal propensity to consume from real estate wealth is considerably higher than that for financial assets, this gain has allowed households to use real estate wealth to offset declines in financial wealth when they make consumption and expenditure decisions.