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This paper examines the influence of stock market fluctuations in the G7 countries, with a particular focus on wealth effects and the consumption channel. Estimating the long run relationship for the United States reveal a marginal propensity to consume out of stock market wealth of 4.5% using the variable that includes pension funds, and 7% using the variable that excludes it. The error correction term in the dynamic relationship has the expected negative sign, and increases in both stock market and nonstock market wealth have a positive and rapid impact on consumption growth.

Due to data limitations, it is difficult to provide comparable analysis for the other G7 countries, but it is possible to infer, from the US estimates, the potential effects of stock market prices on private consumption for these countries, where the estimate of the decline in consumption is given by the product of each country's estimated capital loss, and the MPC, where in one case the consumers in that country are assumed to have the same MPC as in the US, and in the other the MPC is rescaled by the shares of equities in disposable income for that country relative to the share in the US. The results reveal in the first case that a 10% fall in the stock market prices is estimated to reduce consumption by 0.45-0.75% in the US, 0.45% for Canada and the UK, and less than 0.2% for the other countries. The difference between the US and the other countries is even more striking when weighted MPCs are used, with the estimated wealth effect for continental Europe and Japan being almost negligible.

Examining the likely impact of a fall in the stock market wealth, using stock market price index as a proxy for financial wealth in the consumption function, the results reveal that a 10% decrease in share prices leads to a reduction in consumption of 0.5% in the US, 0.4% for the UK, 0.3% for Japan, 0.2% for Canada, and less than 0.2% for continental Europe. The results provide no evidence of any significant impact of market volatility on the consumption relationship, and no significant asymmetries in the stock market wealth effect, while the evidence support the idea that financial liberalization and broadening of stock ownership has increased the potential impact of stock market fluctuations on consumption behavior.