(20) Byrne, Joseph, Davis, Phillip. "Disaggregate Wealth and Aggregate Consumption: An Investigation of Empirical Relationships for the G7." Brunel University.

The paper studies the relationship between components of personal or household sector wealth and consumer's expenditure in G7 countries, using disaggregated wealth in order to highlight which asset prices are more relevant for consumption, and to assess whether rises in subcomponents of wealth have differential effects on consumption, especially that the data shows differences in patterns of wealth holdings across these countries, reflecting a lower level of equity and institutional holdings in Continental Europe than in the Anglo Saxon countries.

The authors disaggregate the long run wealth term into net liquid assets and net illiquid assets, and the results implied that there is a broad pattern of larger and more significant coefficients for illiquid than liquid assets, except for Italy where both are insignificant, and that there are stronger life cycle effects for the predominantly English speaking countries, while the continental Europeans are more liquidity constrained, as financial liberalization took place earlier in the former compared to the latter. Using SURE estimation confirms previous results as the illiquid wealth coefficient is typically larger than the liquid coefficient.

Conducting a test to examine the equivalence of coefficients across countries suggest that not only are liquid assets unimportant as a component of wealth's impact on consumption but they are equally unimportant across countries. They also considered the long run elasticity of household equity holdings, where nonstock market wealth and stock market wealth are separated, and find that the results support the argument that despite their illiquidity, long term institutional forms of saving may have a strong effect on consumption. There are some differences to the main conclusions when bonds are considered as liquid assets. However, when nonproperty income is used and bonds as illiquid assets, illiquid assets again are the dominant term.

The authors finally conclude that the results support the claim that the terms in different subcomponents of financial wealth differ significantly, implying that the aggregation of wealth in a typical consumption function is inappropriate. Furthermore, the evidence that illiquid wealth dominates the effect of conventional liquid assets can be seen in the context of a liberalized financial system where consumption is focused on life cycle considerations and lifetime wealth is held increasingly in securities and institutional investment, while liquid assets are held largely for transactions purposes and changes in their volume are less strongly related to consumption.