(8) Ludvigson, Sydney, Steindel, Charles."How Important is the Stock Market Effect on Consumption?" Federal Reserve Bank of New York Economic Policy Review, 1999.

The authors analyze the link between the increase in the ratio of wealth to disposable income and the boosted consumer spending that has reduced saving, by establishing empirical techniques suitable to deal with the problems of this kind of analysis . They consider the long run relationship to account for the MPC, and found that the answer to the question of interest may be difficult partly because the trend relationship linking consumption, wealth, and labor income exhibits some instability, as their estimates vary somewhat over time but are less unstable than those produced by the traditional methods.

They then examine the short term relationship linking consumption, labor income, and wealth taking into account their common trend by specifying a model of short run dynamics that imposes the estimated long term trend relationship while at the same time making allowances for the possibility of serially correlated but temporary divergences from this trend, using an error correction representation. They study the dynamic response of consumption growth to a wealth shock in order to investigate the length of time over which a change in wealth influences consumption growth, and their results show that the comovement between consumption growth and an unpredictable change in wealth growth is largely contemporaneous, and there does not appear to be important lagged effects in this relationship.