

**(40) Peek, Joe. "Capital Gains and Personal Saving Behavior." *Journal of Money, Credit, and Banking*, 1983, 15:1-23.**

The paper analyzes whether the household sector net capital gains are an important omitted variable in most consumption and saving studies. The authors address this issue by separating total net capital gains into four major groups of assets, where the first consists of owner-occupied housing, land, nonprofit fixed capital and noncorporate equity, the second consists of consumer durable goods, the third corporate equities, and the fourth all other financial assets less liabilities. The author also divides each of those components into expected and unexpected components by fitting a regression of the variable in question on a set of exogenous variables. The predicted value of the regression is then taken as the expected component and the residual is taken as the unexpected component. Initially, all eight net capital gains proxies were included in the estimated equation, however due to a number of strong simple correlations between pairs of the capital gains proxies, making it very difficult to pinpoint their individual effect on the dependent variable, the author regress consumption expenditure only on the expected capital gains on durables, the unexpected capital gains on net financial assets, and the expected capital gains on the combined owner-occupied housing, land, nonprofit fixed capital, noncorporate equity and net financial assets, and other control variables, eliminating the other capital gains proxies. The results show that the coefficients of the three remaining net capital gains proxies are significant, and indicate that an additional dollar of expected net capital gains on owner-occupied housing, land, and net financial assets leads to an increase in consumption expenditure by 11 cents. Also, an additional dollar of expected net capital gains on consumer durable goods leads to a reduction in consumer expenditure of 65 cents, which indicates that individuals want 65 cents of the increase in nonhuman wealth to be in the form of assets other than consumer durable goods. The results also indicate that an unexpected increase in capital gains in net financial assets have a strong negative effect, implying that individuals will try to partially replace net capital losses on these financial assets immediately. Since there tend to be well functioning markets in these financial assets and liabilities, unexpected capital gains and losses can be perceived quickly allowing individuals to react rapidly to them.

Due to the simultaneity problem, the regression was reestimated using two stage least squares, and the results are similar to the previous OLS estimation. Suspecting that the capital gain variables are serving as proxies for the inflation rate, the author includes the CPI inflation in the estimation, and found that the estimated coefficients of the capital gains variables were only slightly altered, but their estimated standard errors increased. Checking the out of sample fit from 1975-1977, the author finds that equation is able to predict approximately 90% of the 1975-76 decline of saving and over 70% of the further decline in 1976-77.