(18) Starr-McCluer Martha. " Stock Market Wealth and Consumer Spending." Federal Reserve Board of Governors, 1998.

This paper investigates the effects of stock market wealth on consumer spending, especially that though the increase in wealth was accompanied by a boom in consumer spending and lower saving rate, and it seems irrefutable that there would be a wealth effect in the long run, it is possible that the short run correlation between stock prices and aggregate spending reflects some process other than a reoptimization of spending in response to higher wealth, and stock prices may simply lead aggregate economic activity.

The paper report the results from the University of Michigan Survey of Consumers, and find that 85% responded that the trend in stock prices had not affected their spending or saving, while only 3.4% said they had increased their spending as a result of higher stock prices, and 11.6% said that the trend had caused them to save more. When asked about their reasons for saving and whether they had plans in the next year to liquidate assets to make purchases, almost one half of the respondents mentioned that their main reason for saving is retirement, and that they are not planning to liquidate for the purpose of saving for retirement. The author also finds no evidence that the accrual of gains in retirement accounts had a restraining effect on spending.

The responses also suggest that concerns about stock price reversals kept stockholders from spending their gains, and that a modest percentage of the wealthier stockholders reported a positive effect of stock price trends on their spending. Also, though uncertainty about future income may be thought to influence decisions about spending or saving wealth gains, there were no significant cross section variation between the perceived risk of job loss and reported spending and saving behavior, and no significant correlation between other sources of uncertainty and spending and saving.

The author finally runs a probit analysis using three measures of spending effects as dependent variable: whether the respondent reported higher spending or lower saving due to the trend in stock prices, whether the respondent reported any effect of the trend on saving or spending, and whether the household planned to liquidate assets to make purchases or to lower saving in the next year. The explanatory variables were the respondent's age, education income, dummy variables indicating whether the household holdings were mostly in retirement accounts, whether they expected stock prices to decline in the next year, whether their holdings were in the top 10%, and whether they reported a risk of an involuntary job loss of 30% or more. The paper finds few variables had statistically significant effects, and the explanatory power of the models was low, but also finds that high income households were significantly more likely to report an effect of wealth on spending.

The author concludes that the results are consistent with the predictions of the life cycle model of a modest wealth effect on current spending, as gains would be distributed over the household's lifetime.