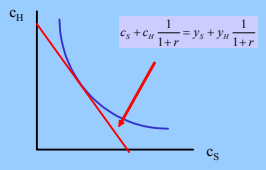
Consumption

More on Inheritances



The Immortal Consumer

$U = \gamma_1 \log(c_1) + \gamma_2 \log(c_2) + \gamma_3 \log(c_3) + \gamma_4 \log(c_4) + \gamma_5 \log(c_5) + \ldots$

The Immortal Consumer

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$U = \log(c_1) + \gamma \log(c_2) + \gamma^2 \log(c_3) + \gamma^3 \log(c_4) + \gamma^4 \log(c_5) + \ldots$

$1 > \gamma > 0$

The Immortal Consumer

$$z = y_1 + y_2 \frac{1}{1+r} + y_3 \left(\frac{1}{1+r}\right)^2 + y_4 \left(\frac{1}{1+r}\right)^3 + \ldots..$$

Hall Test

$$c_t = \phi z_t$$

Hall Test

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$$c_{t-1} = \phi z_{t-1}$$

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$$c_t - c_{t-1} = \phi(z_t - z_{t-1})$$

Hall Test

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Any changes in z must be unexpected.

Hall Test

$$c_t - c_{t-1} = \phi(z_t - z_{t-1})$$

$$c_t - c_{t-1} = \phi\varepsilon_t$$

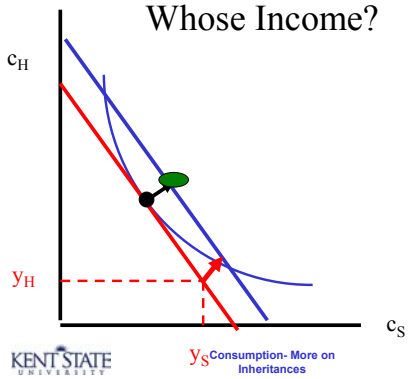
Hall Test

$$c_t - c_{t-1} = \phi\varepsilon_t$$

$$c_t = c_{t-1} + \phi\varepsilon_t$$

$$c_t = c_{t-1} + \varepsilon_t$$

Whose Income?



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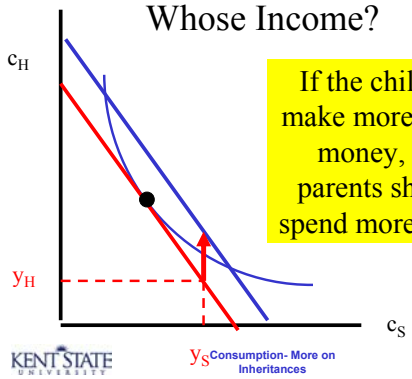
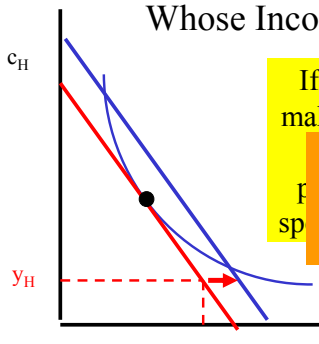


If the children make more (less) money, the parents should spend more (less)

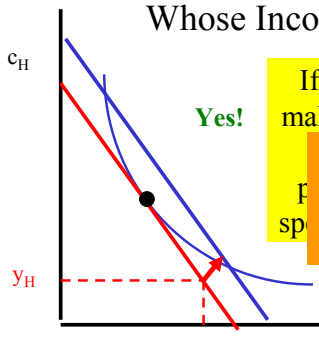
Whose Income?



If the children make more (less)

If the parents make more (less) money, the children should spend more (less)

Whose Income?



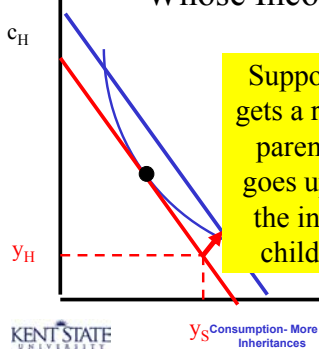
Yes!

If the children make more (less)

If the parents make more (less) money, the children should spend more (less)

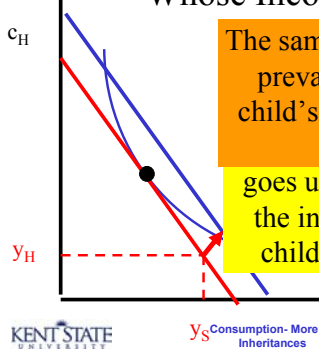
Yes!

Whose Income?



Suppose the parent gets a raise of $1 and parental spending goes up by 10 times the increase in the child's spending.

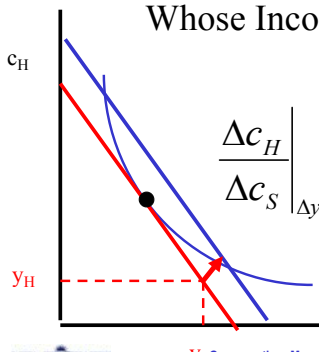
Whose Income?



The same ratio should prevail when the child's income goes up.

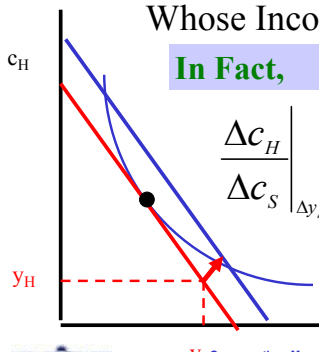
goes up by 10 times the increase in the child's spending.

Whose Income?



$$\left.\frac{\Delta c_H}{\Delta c_S}\right|_{\Delta y_S} = \left.\frac{\Delta c_H}{\Delta c_S}\right|_{\Delta y_H}$$

Whose Income?



In Fact,

$$\left.\frac{\Delta c_H}{\Delta c_S}\right|_{\Delta y_S} \neq \left.\frac{\Delta c_H}{\Delta c_S}\right|_{\Delta y_H}$$

Thoughts

End

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