

Consumption

Multiple Periods

$$C \cong 0.04Z$$

The Four Period Model

$$c_1 = \frac{1}{4} z_1$$

$$c_2 = \frac{1}{3} z_2$$

$$c_3 = \frac{1}{2} z_3$$

$$c_4 = z_4$$

An 80 Period Version

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John and Sally Smith

- Aged 31
- Combined Income of \$100,000 a year
- Expect to work until 65
- Expect growth of 3% a year in salary
- Discount rate of 5%
- \$250,000 in equity

John and Sally Smith

	(2)
(1) Initial Assets	
(2) Interest Income	
(3) Financial Net Worth	250,000
(4) Wage Income	100,000
(5) PV of Wage Income	2,500,000
(6) Wealth	2,750,000
(7) Consumption	55,000
(8) Net Income	100,000
(9) Saving	
(10) Assets, End of Period	

$$c = 0.02z$$



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- The value of their house rises by \$1,000. • $\Delta c = 0.02\Delta z = \20
- The value of their mutual fund falls by \$1,000. • $\Delta c = 0.02\Delta z = -\20

John and Sally Smith

- John gets laid off and loses \$25,000 in salary. • $\Delta c = 0.02\Delta z = -\500

End

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