

Economics 210Ba  
Winter 2001

Professor Marjorie Flavin

lectures: Tuesday and Thursday, 10:25-11:45, room 300

office: 216

office hours: Monday, 1:45-2:45, Wednesday, 11:00-12:00, and Thursday, 2:15-3:15  
or by appointment

email: mflavin@ucsd.edu

Textbooks:

Angus Deaton, Understanding Consumption, Oxford University Press, 1992

Blanchard and Fischer, Lectures in Macroeconomics, MIT Press, 1989

I assume that you are familiar with the Ramsey model and its implications for the consumption/saving decision under certainty. If you are not familiar with the Ramsey model, please review the material on pages 37-75 in Blanchard and Fischer.

Theoretical Models: Consumption, interest rates, and asset prices

- Jan 9:           The consumption/saving decision under uncertainty:  
                  the Lucas asset pricing model  
                  Lucas (1978), "Asset Prices in an Exchange Economy,"  
                  Econometrica, 46, 6 (Dec), 1426-1445.  
                  Blanchard and Fischer, pp 279-291 and 510-512
- Jan 11:           the Lucas asset pricing model, continued
- Jan 16:           the Lucas asset pricing model, continued
- Jan 18:           Deaton, Chapter 1
- Jan 23:           Risk Aversion and Intertemporal Substitution  
                  Kreps and Porteus, 1978, "Temporal Resolution of Uncertainty and  
                  Dynamic Choice Theory", Econometrica, 46, 185-200.  
                  Epstein and Zin, 1989, "Substitution, Risk Aversion and the  
                  Temporal Behavior of Consumption and Asset Returns:  
                  A Theoretical Framework", Econometrica, 57, 937-69.  
                  Epstein and Zin, 1991, "Substitution, Risk Aversion and the Temporal  
                  Behavior of Consumption and Asset Returns: An Empirical  
                  Analysis", Journal of Political Economy, 99, 263-86.



### Empirical models of consumption

- Jan 30      Deaton, Chapters 3 and 4.  
Friedman, Milton, A Theory of the Consumption Function, Princeton University Press, 1957, pp 20-79.  
Hall, Robert, "Stochastic Implications of the Life Cycle Permanent Income Hypothesis: Theory and Evidence" JPE, 86 (Dec 1978), 971-987.

### Precautionary Saving and Liquidity Constraints

- Feb 1:      Deaton, Chapter 6.  
Deaton, 1991, "Saving and Liquidity Constraints", Econometrica, 59, 1221-48.  
Carroll, 1997, "Buffer Stock Saving and the Life Cycle/Permanent Income Hypothesis", Quarterly Journal of Economics.

### Durable goods

- Feb 6:      Grossman, Sanford J., and Laroque, Guy (1990). "Asset Pricing and Optimal Portfolio Choice in the Presence of Illiquid Durable Consumption Goods", Econometrica, 58, (1) pp 25-51.  
Caballero, Ricardo J. (1993). "Durable Goods: An Explanation for Their Slow Adjustment", JPE, 101 (2) pp. 107-17.  
Flavin and Yamashita, 2000, "Owner-Occupied Housing and the Composition of the Household Portfolio"

### The equity premium puzzle; habit formation; durability

- Feb 8:      Mehra, Rajnish, and Edward Prescott (1985), "The Equity Premium: A Puzzle", JME 15, 2 (March), 145-162.  
Constantinides, George (1990), "Habit Formation: A Resolution of the Equity Premium Puzzle, JPE 98, 3 (June), 519-543.

Final exam (tentative): Tuesday, February 13, 10:25-11:45