

Economics 210Ba
Winter 2003

Professor Marjorie Flavin

lectures: Tuesday and Thursday, 9:30-10:50, room 300

office: 216

office hours: Tuesday and Thursday 11:00-12:00 or by appointment

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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 7: 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 9: the Lucas asset pricing model, continued
- Jan 14: the Lucas asset pricing model, continued
- Jan 16: Deaton, Chapter 1
- Jan 21: 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.

Jan 23: The CAPM and the Consumption- β model
Blanchard and Fischer, pp 506-510.

Empirical models of consumption

Jan 28 Deaton, Chapters 3 and 4.

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

Jan 30: Deaton, Chapter 6.
Deaton, 1991, "Saving and Liquidity Constraints", *Econometrica*, 59, 1221-48.
Caballero, 1990, "Consumption Puzzles and Precautionary Savings",
Journal of Monetary Economics, 113-136.
Carroll, 1997, "Buffer Stock Saving and the Life Cycle/Permanent Income Hypothesis", *Quarterly Journal of Economics*.

The equity premium puzzle, habit formation, durable goods

Feb 4: 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.
Abel, Andrew (1990), "Asset Prices under Habit Formation and Catching up with the Joneses", AER Papers and Proceedings, 80 (May 1990), 38-42.
Dynan, Karen E. (2000), "Habit Formation in Consumer Preferences: Evidence from Panel Data", AER 90 (June 2000), 391-406.

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, Marjorie, and Takashi Yamashita (2002). "Owner-Occupied Housing and the Composition of the Household Portfolio", AER, 92, pp. 345-362.
Flavin, Marjorie (2001) "Owner-Occupied Housing in the Presence of Adjustment Costs: Implications for Asset Pricing and Nondurable Consumption".

Final exam: 1.5 hour exam to be given sometime during the week of February 10.