

Theoretical Foundations of Buffer Stock Saving

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Abstract

“Buffer-stock” models of saving are now common in the consumption literature. This paper builds theoretical foundations for rigorous understanding of the main features of such models, including the existence of a target wealth ratio and the proposition that aggregate consumption growth equals aggregate income growth in a small open economy populated by buffer stock savers.

Keywords Precautionary saving, buffer stock saving, marginal propensity to consume, permanent income hypothesis

JEL codes D81, D91, E21

PDF: <http://econ.jhu.edu/people/ccarroll/papers/BufferStockTheory.pdf>
Slides: <http://econ.jhu.edu/people/ccarroll/papers/BufferStockTheory-Slides.pdf>
Web: <http://econ.jhu.edu/people/ccarroll/papers/BufferStockTheory/>
Archive: <http://econ.jhu.edu/people/ccarroll/papers/BufferStockTheory.zip>
(*Contains software for solving and simulating the model*)

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