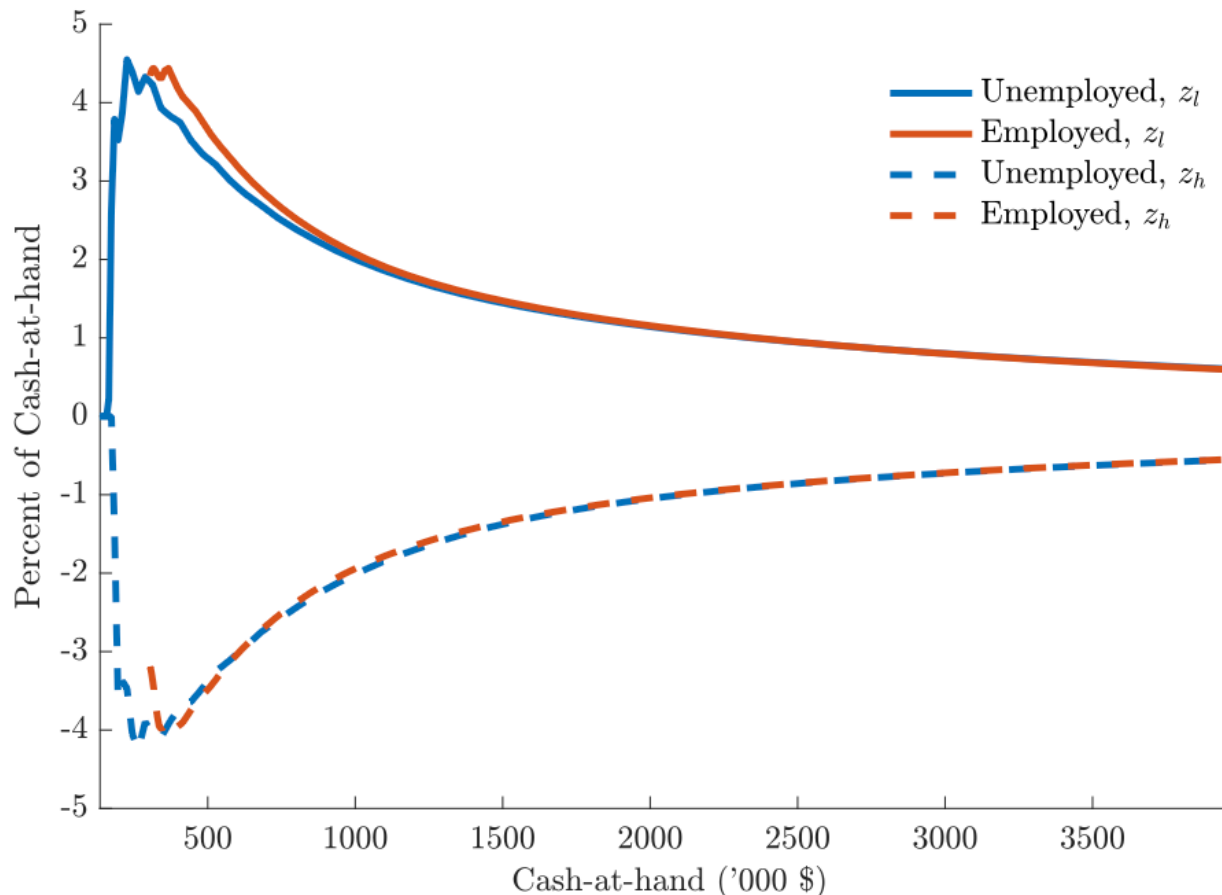Figure 4: Household Saving Choices and the Prior over Capital

Note: The figure plots the difference between savings choices by "informed households" and "uninformed households". Specifically, in a boom (z_h), we plot the difference between the savings policy functions of an informed household that has a prior over the capital stock K_t that is one standard deviation higher than the mean (as over time in booms the capital stock rises) and an uninformed household with a prior at the mean capital stock (solid lines). We do the same for a recession (z_l), but where the informed household has a prior that is one standard deviation below the mean (dashed lines). We plot household savings choices as a function of individual cash-at-hand, using our benchmark parameterization of the model. We use 2020 values of US household income to convert cash-at-hand in our model to $ amounts.