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ABSTRACTS of Articles on Individual Financial Management

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CONSUMPTION-SAVINGS BEHAVIOR

On the Stationarity of Savings in the United States, by Noel Brodsky (Eastern Illinois University)

The question of stationarity of saving as a percent of disposable personal income is examined in detail. National Income and Product Accounts data is taken annually from 1929–1988, and quarterly from 1970–1988. The initial approach uses Dickey-Fuller (1987) tests. Their results indicate that, depending on the time period chosen, one is led to believe that both stationarity and non-stationarity exist in the data. ARIMA models are then fitted to both annual and quarterly data. Relatively large non-differenced models are necessary to fit the long-range annual data (1929–1988), while relatively small differentiated models fit quarterly and short-range annual (1946–1988) models. It is concluded that at least for saving as a percent of disposable income in the US, it is reasonable to believe that saving is not a stationary process. *Quarterly Review of Economics & Finance*, Summer 1994, 34(2): 183–193. (Reprinted with permission of ABI/Inform, Copyright UMI.)

Uninsured Idiosyncratic Risk and Aggregate Saving, by S. Rao Aiyagari (Federal Reserve Bank of Minneapolis)

A qualitative and quantitative analysis of the standard growth model modified to include precautionary saving motives and liquidity constraints is presented. The impact on the aggregate saving rate, the importance of asset trading to individuals, and the relative inequality of wealth and income distributions are addressed. Results suggest that the contribution of uninsured idiosyncratic risk to aggregate saving is quite modest, at least for moderate and empirically plausible values of risk aversion, variability, and persistence in earnings. However, for sufficiently high variability and persistence in earnings, the aggregate saving rate could be higher by as much as 7 to 14 percentage points. In addition, in contrast to representative agent models, it turns out that access to asset markets is quite important in enabling customers to smooth out earnings fluctuations. *Quarterly Journal of Economics*, August 1994, 109(3): 659–684. (Reprinted with permission of ABI/Inform, Copyright UMI.)