Problem Set 1

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Objective

1. A brief summary of your interests in economics.
2. In-text citations of relevant books/articles on your topic of interest.
3. A list of references (compiled using the references cited in the text).
4. At least one equation.
5. At least one figure.

Summary of interest in Economics

Broadly speaking, my research interest lies in studying the consumer behavior and response in retail firms and health clubs after an economic intervention takes place. I will be studying the pre and post effects of government economic interventions and thus would be using economics and statistical methods and concepts in my research work. Following is a small literature review to support my research interest:

The National Bureau of Economic Research (NBER, n.d.) defines a recession as "a significant decline in economic activity that is spread across the economy and lasts more than a few months." (para 2) It dates the Great Recession in the United States from December 2007 to June 2009 which accounts for 18 months, the longest and worst since the Great Depression (Romer & Romer, 2015). In a report submitted by the Institute of Labor

Economics, interest rates, global imbalances, perceptions of risks and regulation of the financial system are considered as the four core but interrelated factors which lead to global financial crisis.
There are a lot of research work done to understand the human behaviour during economic and financial distress. There are quite a lot of evidence to support the change in habits and behaviours as the income and wealth of individuals and households change. An interesting topic of discussion here would be how individuals allocate their lost work hours during recessions as according to statistics of the Bureau of Labor Statistics (BLS), aggregate market work hours in the U.S. fell by roughly 7% between 2008 and 2010.

A very interesting research done by (Kamakura & Yuxing Du, 2012) discuss how economic contractions and expansions affect expenditure patterns and household budget allocations. They highlight in their study how traditional economic analyses have assumed that the consumer tastes remain unchanged regardless of economic conditions. Under such a standard assumption, the impact of economic conditions on household budget allocation come through changing consumption budgets. Hence, according to traditional economic models, consumers spend less on luxuries and allocate larger shares to more essential categories.

Looking at past research they also say that during a recession, consumers cut back on their spending. As per the Pew Research Center 2010, 62% of Americans reduced household spending since the “Great Recession” began in December 2007, and only 6% spent more. (Flatters & Willmott, 2009) too point out that, when less fortunate consumers are forced to live a thriftier life during a recession, many affluent consumers start to economize as well, due to two major reasons: first is the lowered pressure for “competitive consumption” and second is that the recession makes discretionary thrift acceptable or even fashionable, another manifestation of relative consumption.

In their study (Kamakura & Yuxing Du, 2012) they empirically identify that more visible nonessential (positional) goods (e.g., food away from home, apparel, apparel services, jewellery and watches, personal care, home furnishings and appliances, recreation, and airfare) become relatively less desirable in a recession, while less visible essential (non-positional) goods (e.g., food at home; housing; prescription drugs; water, sewage, and trash; health insurance) gain in relative desirability during a recession. Based on their analyses, they make two conclusions: First, consumers generally reduce their consumption budget either because their income is lower, or because they become more risk averse, allocating more of their income toward savings, which forces them to satisfy essential needs first (the budget effect). Second, consumers derive less relative utility from, and thus less desire for, visible nonessentials (the positional effect), leading to further lowered shares of shrunken budgets for these positional goods/services.

(Aguiar, Hurst, & Karabarbounis, 2013) show that time spent on shopping increases during recessions,. Research also shows that many measures of shopping intensity rose during the Great Recession. It has also be found that spending shares on generic goods fall with household income and wealth in the Great Recession, although these particular effects are small. They also find that there are significant price responses of these goods to local economic conditions. In his research (Hall, 2010) shows that the consumption of nondurables and services sagged a little immediately, before beginning a recovery in the latter half of 2009. He highlights that the crisis creates a contraction essentially in investment and not in spending. Under investment he included investment-type purchases by consumers (cars, appliances, furniture), business investment in plant, equipment, and inventories and residential investment.

Conclusion

Financial crisis and economic imbalance bring changes in the wealth and income of the people which in turn acts as a seed to stress, anxiety, social and health problems of the individuals living in the affected nation. Past research have talked about change in the lifestyle of people, their spending and their time utilization during these tough times. Research have also highlighted the mental and physical problems that an individual face. With my research work I will try to build a bridge between economics and consumer response focussing on particular firm types and health clubs.

Equations

$$\sqrt{x^2 + y^2 + 2xy} \tag{1}$$

$$\hat{\sigma}^2 = \frac{\sum \hat{\epsilon}_i^2}{n-2} = \frac{\sum (Y_i - \hat{Y}_i)^2}{n-2} \tag{2}$$

$$\Pr(Y_i = 1|X_i) = \frac{exp(\beta_0 + \beta_1 X_i + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4)}{1 + exp(\beta_0 + \beta_1 X_i + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4)} \tag{3}$$

Figure

Figure 1: The Importance of Economics

References

Aguiar, M., Hurst, E., & Karabarbounis, L. (2013). Time use during the great recession. *American Economic Review*, *103*(5), 1664–96.

Flatters, P., & Willmott, M. (2009). Understanding the post-recession consumer. *Harvard Business Review*, *87*(7/8), 106–112.

Hall, R. E. (2010). Why does the economy fall to pieces after a financial crisis? *Journal of Economic perspectives*, *24*(4), 3–20.

Kamakura, W. A., & Yuxing Du, R. (2012). How economic contractions and expansions affect expenditure patterns. *Journal of consumer research*, *39*(2), 229–247.

Romer, C. D., & Romer, D. H. (2015). *New evidence on the impact of financial crises in advanced countries* (Tech. Rep.). National Bureau of Economic Research.