298D Problem Set 1

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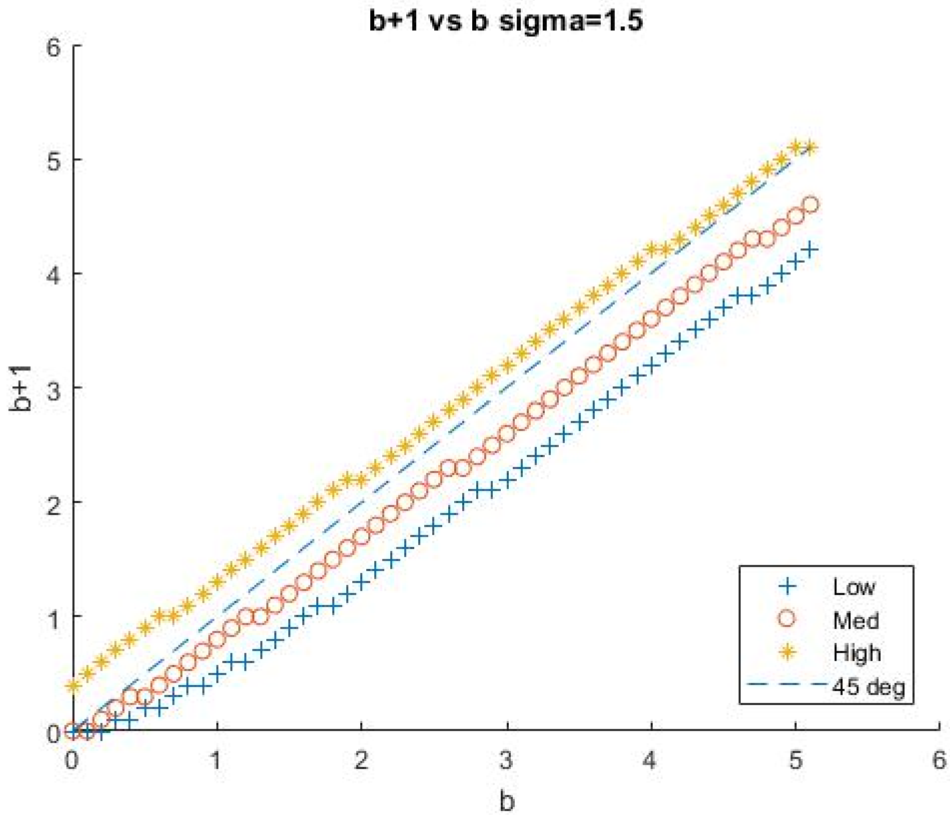
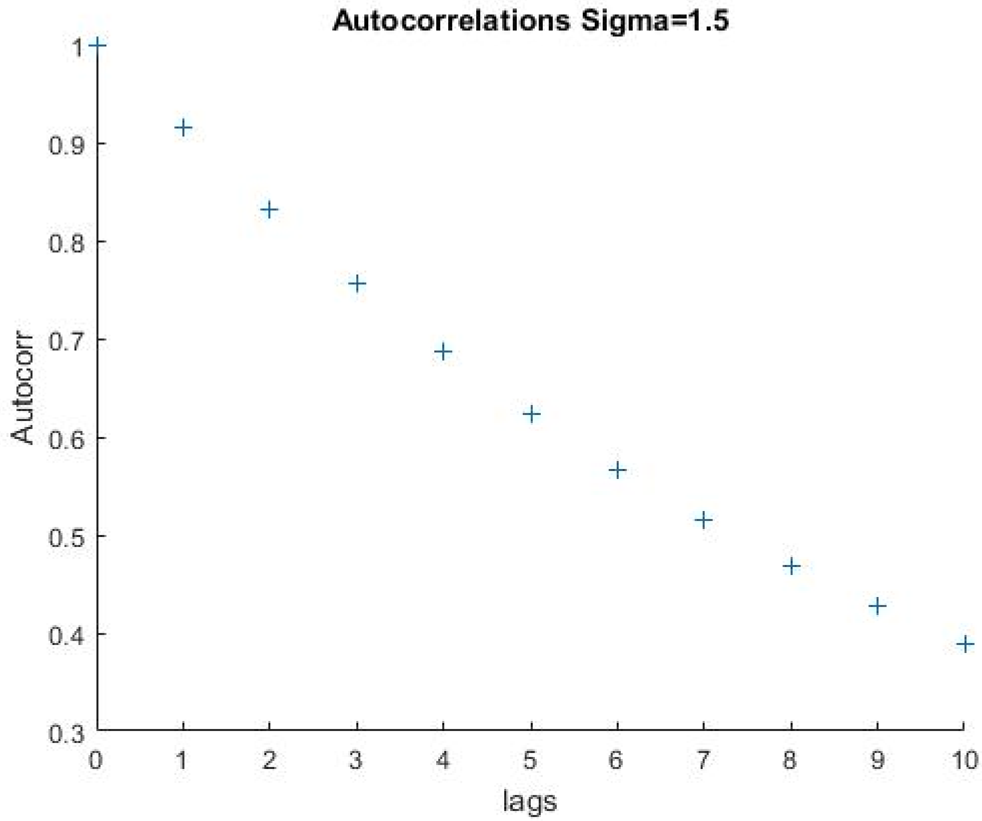
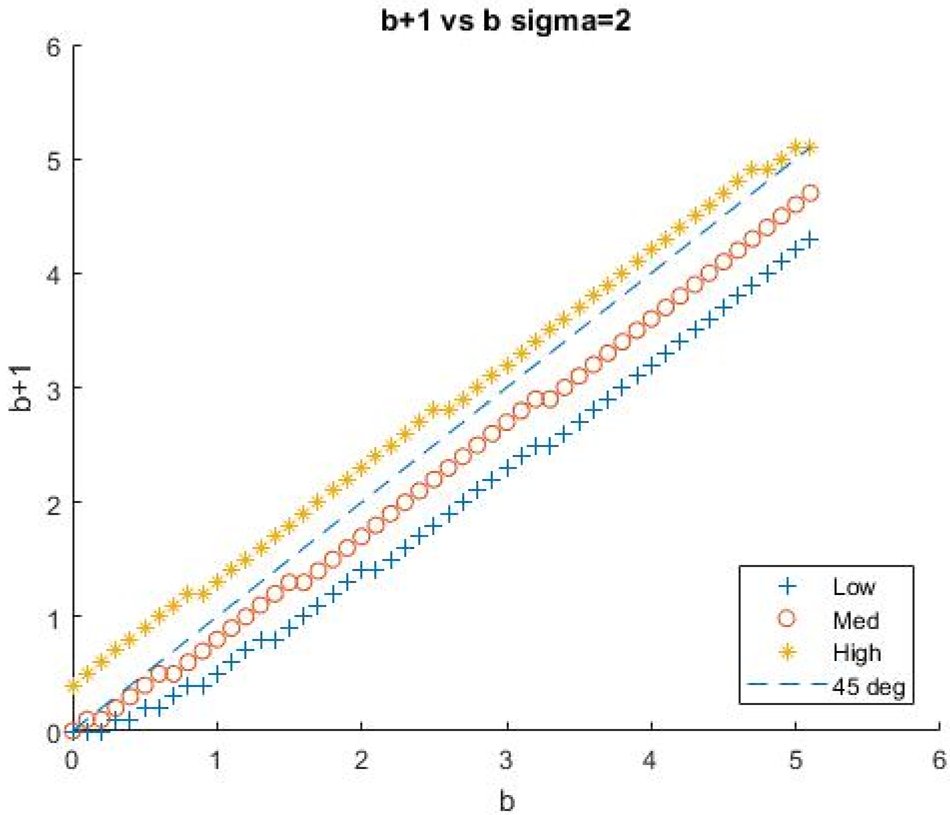
Results

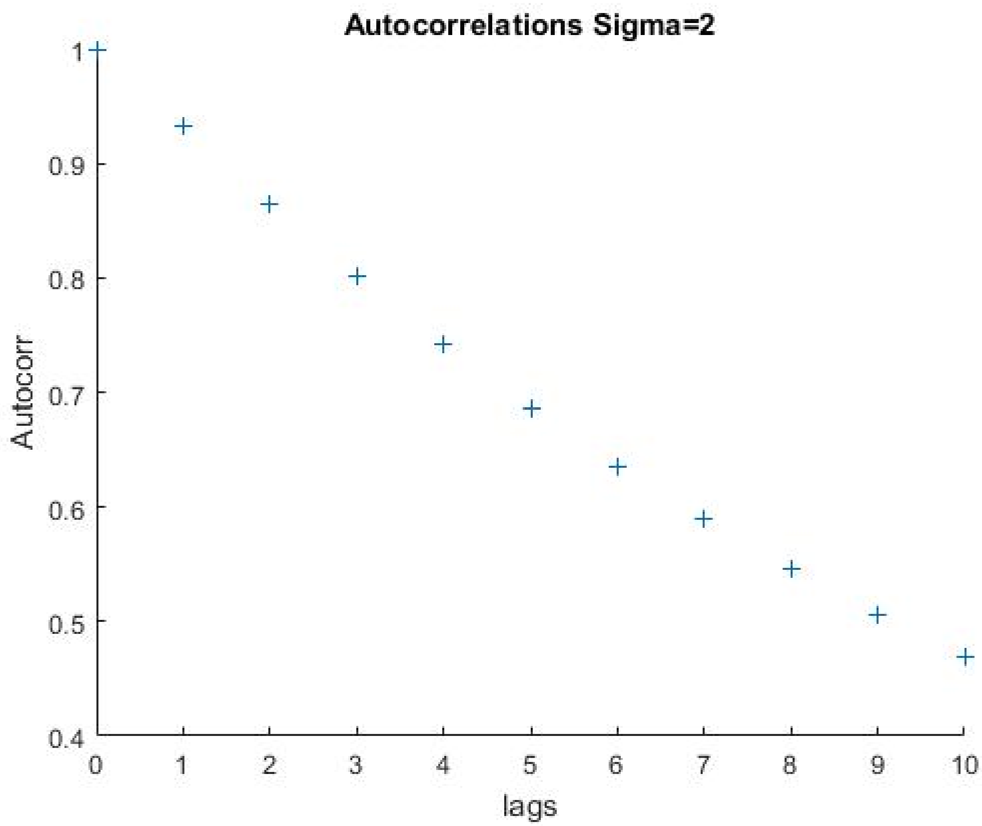
RESULTS FOR SIGMA = 1.5			
Mean Consumption:			1.0025
Consumption Variance:			.0103
Average Bond Holdings by Income State Level			
Income:	1	2	3
Bond Level:	0.67	1.12	1.66



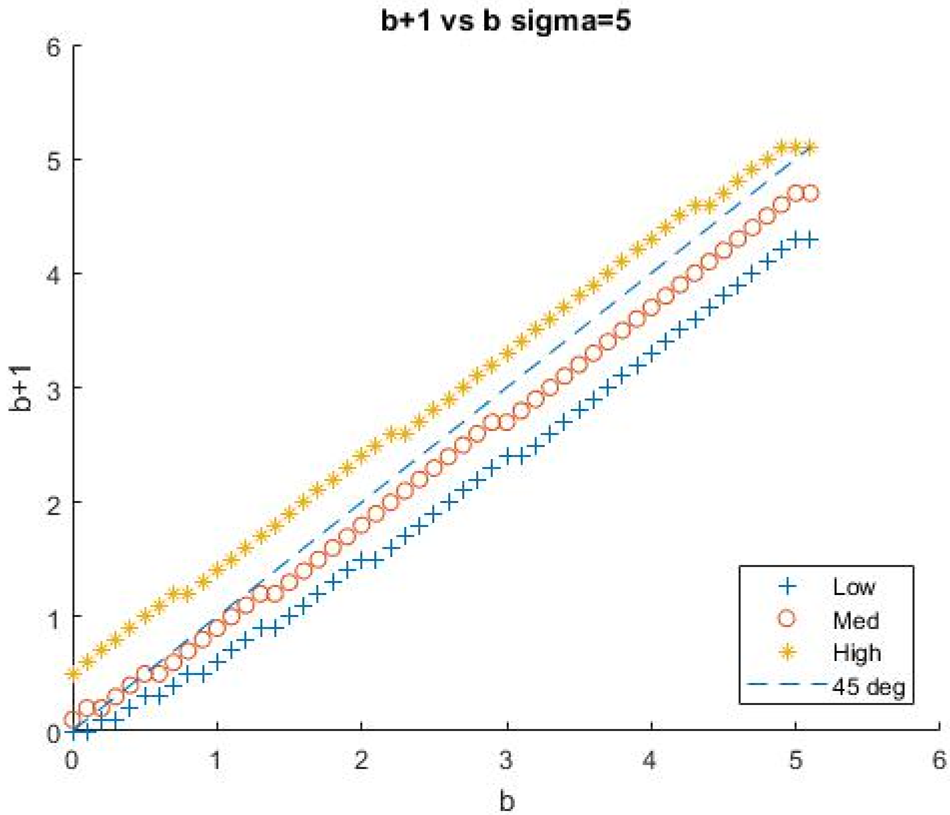

Autocorrelations Sigma=1.5
Autocorr
lags
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0
1
2
3
4
5
6
7
8
9
10

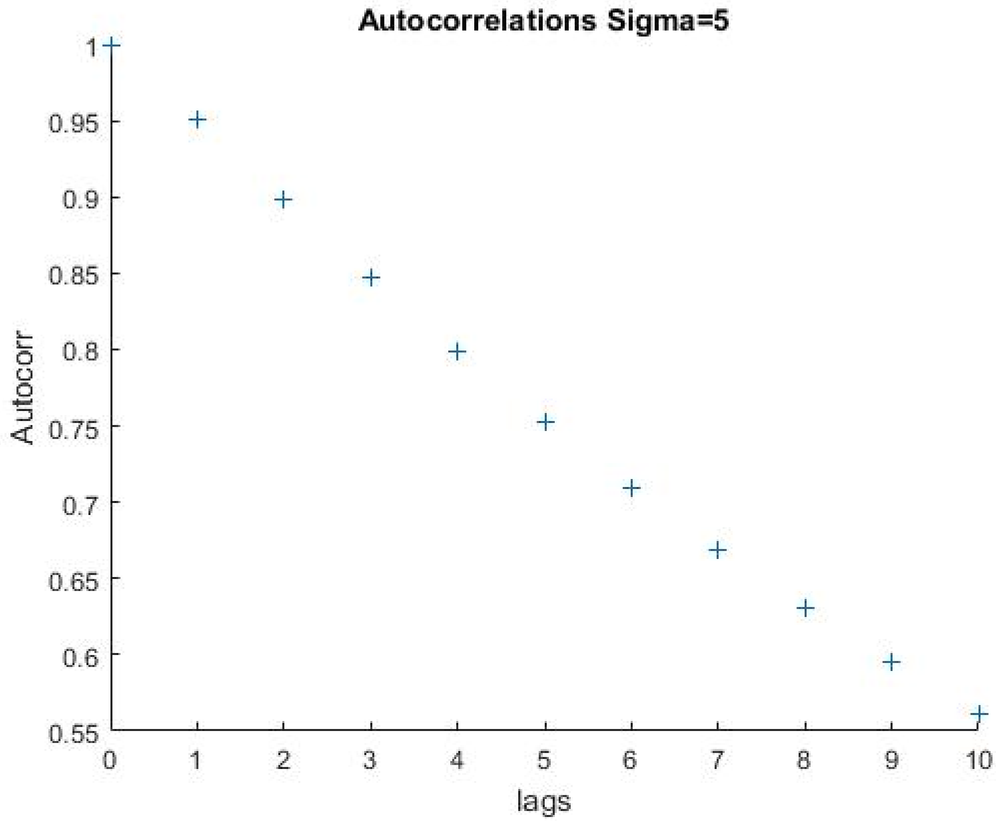
RESULTS FOR SIGMA = 2.0			
Mean Consumption:			1.0024
Consumption Variance:			.0083
Average Bond Holdings by Income State Level			
Income:	1	2	3
Bond Level:	0.93	1.44	1.98




Autocorrelations Sigma=2
Autocorr
lags
1
0.9
0.8
0.7
0.6
0.5
0.4
0
1
2
3
4
5
6
7
8
9
10

RESULTS FOR SIGMA =5.0			
Mean Consumption:			1.0025
Consumption Variance:			.0056
Average Bond Holdings by Income State Level			
Income:	1	2	3
Bond Level:	2.13	2.76	3.31





Comments:

- The results of the analysis match the results of the paper. I calculated the average bond holdings by income level using both a Monte-Carlo approach and via the invariant distribution, with matching results.
- The comparative statics suggest that increased risk aversion corresponds to increased savings and a decline in consumption volatility. In other words, consumers put greater value on consumption smoothing. The smoothing is accomplished via increased savings, which is evidenced in the higher values of assets given a particular level of income.
- Similarly, increased risk aversion corresponds to increased savings. This is evidenced in the auto correlations across the tested lag values.
- In all cases, high income corresponded with positive savings, while medium and low income levels corresponded with positive consumption.