

1 Extensions

This concludes the preliminary results of this work. From here on, I discuss actionable extensions of the model which are of high priority to be completed.

1.1 Incorporating bequest motives

The desire to leave bequests is thought to be an important reason for households to save, especially those at the top end of the wealth distribution. More generally, the following specification of additively separable wealth in the utility function¹ extends the model to accomodate these other reasons to accumulate assets:

$$u(c_t, a_t) = \frac{c_t^{1-\rho}}{1-\rho} + \kappa \frac{(a_t - \underline{a})^{1-\Sigma}}{1-\Sigma}.$$

Straub (2019) provides calibration values for κ and \underline{a} and estimation for the elasticity parameters. However, I will need if additional parameters should be estimated and what corresponding empirical moments of the data will be needed for identification.

1.2 Incorporating portfolio choice

Portfolio choice is also an important feature of the consumption-saving problem of households not currently present in the model. Denoting the gross return on the risky asset as \mathcal{R}_{t+1} and the proportion of the portfolio invested in the risky asset as ς_t , the revised maximization problem is

$$\begin{aligned} v(m_t) &= \max_{c_t, \varsigma_t} u(c_t, a_t) + \beta \mathbb{E}_t[\psi_{t+1}^{1-\rho} v(m_{t+1})] \\ &\text{s.t.} \\ a_t &= m_t - c_t(m_t), \\ k_{t+1} &= \frac{a_t}{\mathbb{E}\psi_{t+1}}, \\ \mathbb{R}_{t+1} &= \mathbb{R}_{t+1} = (\mathcal{R}_{t+1} - \mathbb{R}_{t+1})\varsigma_t \\ m_{t+1} &= (\mathbb{R} - \delta)k_{t+1} + \xi_{t+1}, \\ a_t &\geq 0. \end{aligned}$$

where \mathbb{R} denotes the overall return on the portfolio across periods.²

1.3 Financial literacy and trust

Deuflhard, Georgarakos, and Inderst (2018) Lusardi and Mitchell (2014)

¹ Alternative specifications, such as a non-separable utility function of consumption and wealth, may also be explored in this setting.

² The perpetual youth setting is provided for simplicity. It is straightforward to allow for portfolio choice in the life cycle setting.

Guiso, Sapienza, and Zingales (2008) Butler, Giuliano, and Guiso (2016)

References

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