Structural Estimation of Life Cycle Models with Wealth in the Utility Function

CEF 2024 NTU Singapore

Alan Lujan

2024-06-20

Why do people save?

Reasons for Saving

Can't save

Education

Family

Home

Investment

Liquidity/the future

No particular reason

Purchases

Retirement

edcl_lbl

Bachelors degree or higher

2.06%

8.86%

3.67%

3.63%

2.35%

33.81%

1.11%

6.98%

37.53%

high school diploma or GED

5.22%

7.98%

5.75%

4.79%

2.64%

35.04%

1.09%

11.87%

25.62%

no high school diploma/GED

10.54%

7.35%

6.73%

4.42%

3.01%

33.67%

1.26%

15.04%

17.99%

some college or Assoc. degree

3.63%

8.79%

4.82%

4.58%

2.61%

35.97%

1.12%

10.70%

27.78%

Life Cycle savings profiles

Insert graphs from SCF normalized and unnormalized

Motivation and Research Quesitions

Motivation

- Wealth accumulation
- Inequality
- Life Cycle / Retirement

Research Questions

- What are these models missing?
- How do we better fit the distribution of wealth at the top?
- How much does wealth in the utility function matter?
- How imporant are life cycle properties?

Some Literature

- Why do the rich save so much? - Carroll [1998]

    - the rich have higher lifetime savings rates
    - models of consumption smoothing and precautionary savings can not explain this
    - propose a model where wealth is in the utility function
    - households derive utility from wealth itself OR
    - wealth provides a flow of services such as political power or social status

- Do the rich save more? - Dyan Skinner Zeldes [2004]