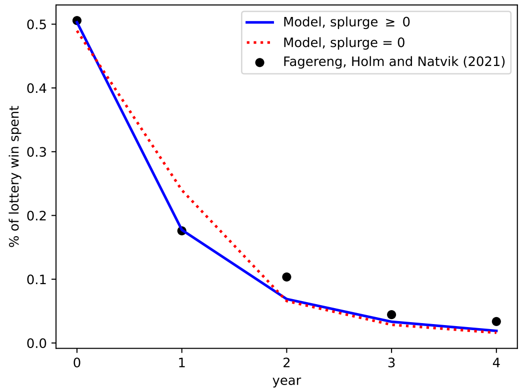
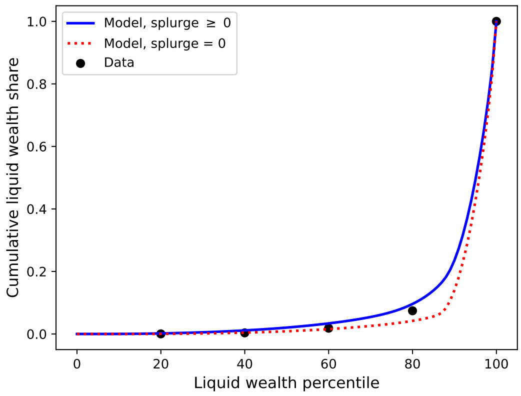
Figure 1 Model performance with and without splurge factor



(a) Spending dynamics comparison



(b) Wealth distribution comparison

Note: This figure compares model performance with and without the splurge factor (Appendix **??**). Subfigure (a) shows the fit to dynamic consumption response from Fagereng, Holm, and Natvik (2021); the model without splurge achieves high initial MPC through wider discount factor distribution ($\beta = 0.921, \nabla = 0.116$) versus the baseline model ($\beta = 0.968, \nabla = 0.0578$). However, it exhibits higher spending propensity in year 2 due to faster spending by borrowing-constrained agents. Subfigure (b) shows the liquid wealth distribution fit; the no-splurge model generates more unequal wealth distribution relative to baseline and empirical data from the 2004 SCF. While both models perform reasonably well, the splurge factor provides superior empirical fit.

References

Fagereng, Andreas, Martin B. Holm, and Gisle J. Natvik (2021): "MPC Heterogeneity and Household Balance Sheets," *American Economic Journal: Macroeconomics*, 13(4), 1–54.