Low (2005): Self-Insurance in a Life-Cycle Model of Labour Supply and Savings

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Abstract

Using a heterogeneous agent model calibrated to match spending dynamics over four years following an income shock (Fagereng, Holm, and Natvik (2021)), we assess the effectiveness of three fiscal stimulus policies implemented during recent recessions. Unemployment insurance (UI) extensions are the "bang for the buck" winner when the metric is effectiveness in boosting utility. Stimulus checks are second-best and have two advantages (over UI): they arrive faster, and are scalable. A temporary (two-year) cut in wage taxation is considerably less effective than the other policies and has negligible effects in the version of our model without a multiplier.

Keywords stimulus checks, unemployment insurance extensions, payroll tax cuts, HANK/heterogeneous agent models, marginal propensity to consume, spending multipliers

JEL codes E21, E62, H31

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Forthcoming, *Quantitative Economics*

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1 Introduction

This trimmed version preserves the full section structure while removing most narrative detail.

1.1 Related literature

The full literature review is omitted in this lightweight scaffold.

2 Model

We retain one representative equation for compilation and structure checks:

$$C_t = \beta \, \mathbb{E}_t[C_{t+1}] + \varepsilon_t. \tag{1}$$

3 Parameterizing the model

Calibration details are intentionally abbreviated.

4 Comparing fiscal stimulus policies

Most policy comparison text is removed; a minimal table is kept.

Table 1 Illustrative policy comparison

Policy	Spending effect	Welfare effect
Stimulus check	Medium	Medium
UI extension	High	High
Tax cut	Low	Low

5 Robustness in a HANK and SAM Model

Detailed robustness analysis is omitted.

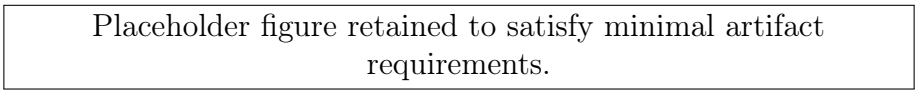

Figure 1 Placeholder robustness figure

6 Conclusion

Main takeaways are intentionally shortened for the stripped document version.

Appendices

A Appendix: Minimal retained content

This stripped version keeps one appendix section while removing most appendix material.

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