Table 1 Calibrated Model Parameters — Normal times

Panel A: Parameters that apply to all types

Parameter	Notation	Value
Risk aversion	γ	2.0
Splurge	ς	0.249
Survival probability, quarterly	$1 - D$	0.994
Risk free interest rate, quarterly (gross)	R	1.01
Standard deviation of transitory shock	σ_ξ	0.346
Standard deviation of permanent shock	σ_ψ	0.0548
Unemp. benefits replacement rate (share of PI)	ρ_b	0.7
Unemp. income w/o benefits (share of PI)	ρ_{nb}	0.5
Avg. dur. of unemp. benefits in normal times (quarters)		2
Avg. dur. of unemp. spell in normal times (quarters)		1.5
Prob. of leaving unemp.	π_{ue}	0.667
Consumption elasticity of aggregate demand effect	κ	0.3

Shows parameters calibrated the same for all types.

Panel B: Parameters calibrated for each education group

	Dropout	Highschool	College
Percent of population	9.3	52.7	38.0
Avg. quarterly PI of "newborn" agent ($1000)	6.2	11.1	14.5
Std. dev. of log(PI) of "newborn" agent	0.32	0.42	0.53
Avg. quarterly gross growth factor for PI (Γ_e)	1.0036	1.0045	1.0049
Unemp. rate in normal times (percent)	8.5	4.4	2.7
Prob. of entering unemp. (π_{eu}^e, percent)	6.2	3.1	1.8

Shows parameters calibrated for each education group. ("PI" is permanent income).