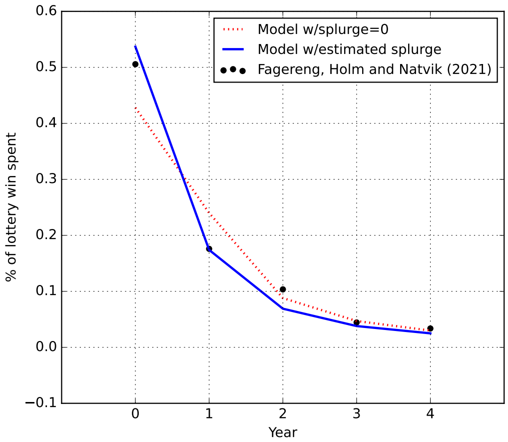
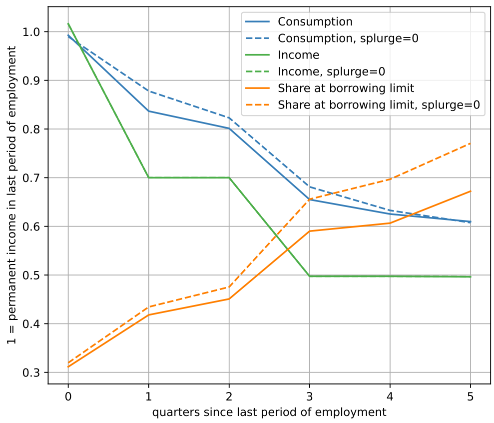
Figure 1 Validation moments in models with and without splurge



(a) Dynamic spending comparison



(b) UI benefit expiry dynamics

Note: This figure validates both model variants against empirical evidence (Appendix **??**). Subfigure (a) compares dynamic consumption response to Fagereng, Holm, and Natvik (2021) estimates; the no-splurge model shows slightly low MPC in year 1 and high MPC in year 2 due to faster spending by borrowing-constrained agents from the wider discount factor distribution. Subfigure (b) shows UI benefit expiry dynamics compared to Ganong and Noel (2019); both models predict similar consumption drops (17% vs. 18%) when benefits expire, but through different mechanisms: direct splurge effects vs. increased borrowing constraints. Red lines show income dynamics, demonstrating model consistency across specifications.

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.

Ganong, Peter, and Pascal Noel (2019): "Consumer Spending during Unemployment: Positive and Normative Implications," *American Economic Review*, 109(7), 2383–2424.