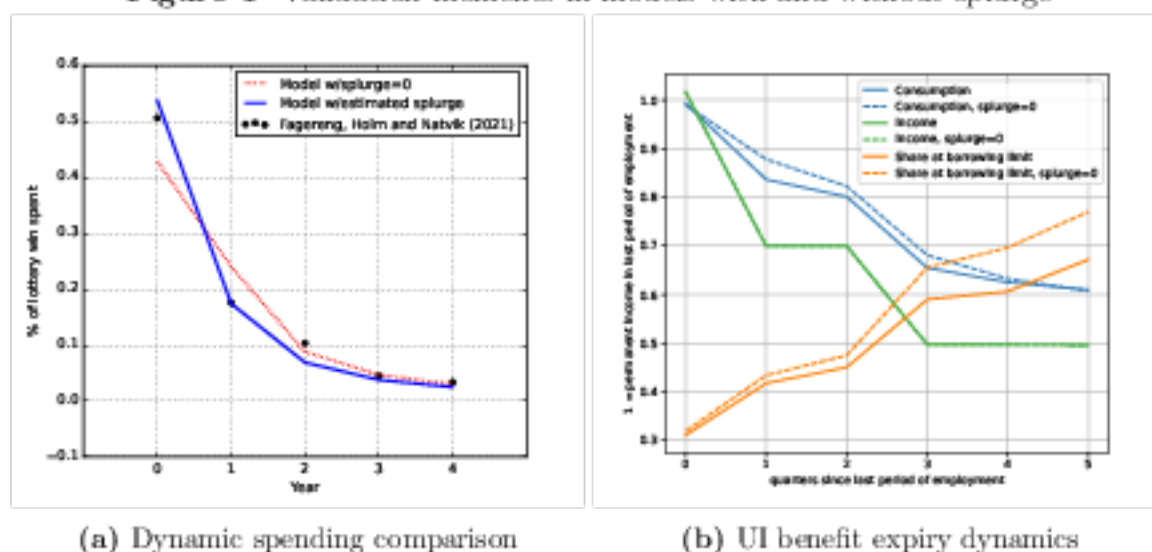


**Figure 1** Validation moments in models with and without splurge



**Note:** This figure validates both model variants against empirical evidence (Appendix B). 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.

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## References

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