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Intertemporal Substitution in Macroeconomics (Classic Reprint) (Paperback)

By N Gregory Mankiw

Forgotten Books, United States, 2015. Paperback. Book Condition: New. 229 x 152 mm. Language: English . Brand New Book ***** Print on Demand *****.Excerpt from Intertemporal Substitution in Macroeconomics Modern neoclassical theories of the business cycle posit that aggregate fluctuations in consumption and employment are the consequence of dynamic optimizing behavior by economic agents who face no quantity constraint. In this paper, we estimate an explicit model of this type. In particular, we assume that the observed fluctuations correspond to the decisions of an optimizing representative individual. This individual has a stable utility function which is additively separable over time but not necessarily additively separable in consumption and leisure. We estimate three first order conditions which represent three margins on which the individual is optimizing. He can trade off present consumption for future consumption, present leisure for future leisure and present consumption for present leisure. Our results show that the aggregate U.S. data are extremely reluctant to be characterized by a model of this type. Not only are the overidentifying restrictions statistically rejected but, In addition, the estimated utility function is often not concave. Even when it is concave the estimates imply that either consumption or leisure is an inferior...



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