



Finance and Economics Discussion Series: On the Relationships Between Real Consumption, Income, and Wealth

By Michael Palumbo

BiblioGov. Paperback. Book Condition: New. This item is printed on demand. Paperback. 32 pages. Dimensions: 9.7in. x 7.4in. x 0.1in. The existence of durable goods implies that the welfare flow from consumption cannot be directly associated with total consumption expenditures. As a result, tests of standard theories of consumption (such as the Permanent Income Hypothesis, or PIH) typically focus on nondurable goods and services. Specifically, these studies generally relate real consumption of nondurable goods and services to measures of real income and wealth, where the latter are deflated by a price index for total consumption expenditures. We demonstrate that this procedure is only valid under the assumption that real consumption of nondurables and services is a constant multiple of aggregate real consumption outlays--an assumption that represents a very poor description of U. S. data. We develop an alternative approach that is based on the observation that the ratio of these series has historically been stable in nominal terms, and use this approach to examine two basic predictions of the PIH. We obtain significantly different results relative to the traditional approach. This item ships from La Vergne, TN. Paperback.



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