

## MW86 Seminar „Household Finance“

Summer 2021

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Content: In this seminar, we will discuss foundations and specific topics from the vast literature on household finance, which asks “How do households use financial instruments to achieve their objectives?”. We will focus on the theoretical and quantitative advancements that have been motivated by the inability of the classical permanent income hypothesis to explain patterns observed in the data. Throughout the course, our goal will be to study different models of the underlying decision-making, the empirical evidence for and against them, as well as their policy implications. A substantial part of the course will be devoted to a new research area of behavioural household finance, which considers departures from the traditional rational-agent model. The seminar is aimed at Master-level students.

Organisation: Two introductory lectures in the beginning of the semester, followed by the selection of seminar paper topics by course participants. Individual work and group discussions during the semester, with presentations delivered during a block seminar at the end of the semester (early- to mid-July). Deadline for final submission of the seminar papers is 31<sup>st</sup> August 2021.

Language: The seminar will be conducted in English (literature, presentations, seminar papers).

Prerequisites: MV01, MV03

Grading: Seminar paper (60%), presentation (30%), participation in general discussion (10%).

Credits: 2 SWS (4 ECTS)

### Introduction to the field

- Attanasio, O.P. & Weber, G. (2010), “Consumption and Saving: Models of Intertemporal Allocation and Their Implications for Public Policy”, *Journal of Economic Literature*, vol. 48, pages 693-751.
- Campbell, J.Y. (2006), “Household Finance”, *The Journal of Finance*, vol. 61 (4), pages 1553-1604.
- Campbell, J. Y. (2016), “Restoring rational choice: The challenge of consumer financial regulation”, *American Economic Review*, vol. 106(5), pages 1-30.

### Seminar paper topics

- 1) Failures of consumption smoothing  
Kaplan, G., & Violante, G. L. (2014), “A Model of the Consumption Response to Fiscal Stimulus Payments”, *Econometrica*, vol. 82 (4), pages 1199-1239.  
Parker, J. A. (2017), “Why Don't Households Smooth Consumption? Evidence from a \$25 Million Experiment”, *American Economic Journal: Macroeconomics*, vol. 9(4), pages 153-83.

- 2) Hyperbolic discounting in a life cycle model  
Laibson, D., Maxted, P., Repetto, A. & Tobacman, J. (2017), “Estimating Discount Functions with Consumption Choices over the Lifecycle”, *Working Paper*.
- 3) Patience and wealth accumulation  
Epper, T., Fehr, E., Fehr-Duda, H., Kreiner, C. T., Lassen, D. D., Leth-Petersen, S., & Rasmussen, G. N. (2020), „Time Discounting and Wealth Inequality”, *American Economic Review*, vol. 110 (4), pages 1177-1205.
- 4) Heterogenous returns and wealth inequality  
Fagereng, A., Guiso, L., Malacrino, D. & Pistaferri, L. (2020), “Heterogeneity and Persistence in Returns to Wealth”, *Econometrica*, vol. 88 (1), pages 115-170.
- 5) Financial market non-participation  
Vissing-Jorgensen, A. (2003), “Perspectives on Behavioral Finance: Does “Irrationality” Disappear with Wealth? Evidence from Expectations and Actions”, *NBER Macroeconomics Annual*, vol. 18, pages 139-194.  
Hong, H., Kubik, J. D., & Stein, J. C. (2004), „Social interaction and stock-market participation”, *The Journal of Finance*, vol. 59 (1), pages 137-163.
- 6) Beliefs and investment decisions  
Giglio, S., Maggiori, M., Stroebel, J., & Utkus, S. (2020), „Five facts about beliefs and portfolios”, *NBER Working Paper No. 25744*.  
Gabaix, X. (2012), “Variable rare disasters: An exactly solved framework for ten puzzles in macro-finance”, *The Quarterly Journal of Economics*, vol. 127(2), pages 645-700.
- 7) Financial knowledge accumulation  
Jappelli, T. & Padula, M. (2013), “Investment in financial literacy and saving decisions”, *Journal of Banking & Finance*, vol. 37, pages 2779-2792.  
Lusardi, A., Michaud, P.C. & Mitchell, O.S. (2017), “Optimal Financial Knowledge and Wealth Inequality”, *Journal of Political Economy*, vol. 125 (2), pages 431-477.
- 8) Consumer naivete and the design of financial products  
C el erier, C., & Vall e, B. (2017), “Catering to investors through security design: Headline rate and complexity”, *The Quarterly Journal of Economics*, vol. 132(3), pages 1469-1508.  
Egan, M. (2019), “Brokers versus Retail Investors: Conflicting Interests and Dominated Products”, *The Journal of Finance*, vol. 74(3), pages 1217-1260.
- 9) Regulatory interventions in financial markets  
Agarwal, S., Chomsisengphet, S., Mahoney, N., & Stroebel, J. (2015), “Regulating Consumer Financial Products: Evidence from Credit Cards”, *The Quarterly Journal of Economics*, vol. 130(1), pages 111-164.