

MW86 Seminar “Household Finance”

Summer 2022

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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 31st August.

NOTE: The seminar will start in May, there will be no meetings in April.

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) 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.

- 2) 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.
- 3) 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.
- 4) Beliefs and investment decisions
Giglio, S., Maggiori, M., Stroebe, 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.
- 5) 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.
- 6) 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.
- 7) Self-control problems and illiquid wealth
Schlafmann, K. (2021), "Housing, Mortgages, and Self-Control", *The Review of Financial Studies*, 34(5), 2648-2687.
Attanasio, O., Kovacs, A. & Moran, P. (2021), "Temptation and Incentives to Wealth Accumulation", *NBER Working Paper No. 28938*.
- 8) Consumer naivete and the design of financial products
C  lerier, 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., & Stroebe, J. (2015), "Regulating Consumer Financial Products: Evidence from Credit Cards", *The Quarterly Journal of Economics*, vol. 130(1), pages 111-164.