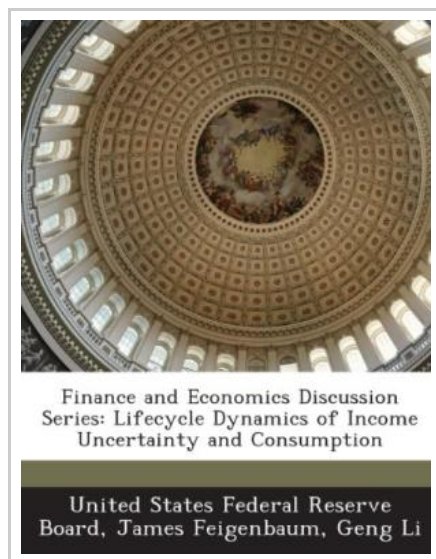




Finance and Economics Discussion Series: Lifecycle Dynamics of Income Uncertainty and Consumption

By James Feigenbaum, Geng Li

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.Uninsurable income risk is often cited as an explanation for empirical deviations from the Lifecycle/Permanent-Income Hypothesis such as the observation that the life-cycle profile of mean consumption is hump-shaped. Most methods used for estimating income uncertainty essentially measure the cross-sectional variance of a subpopulation rather than the true uncertainty or riskiness perceived by consumers. In this paper, we employ a nonparametric approach to estimate idiosyncratic income uncertainty. We measure income uncertainties as the variance of income forecasting errors at different ages and over different time horizons. The estimated life-cycle income uncertainty profile is U-shaped and generally implies a lower degree of income uncertainty relative to the previous literature. We subsequently use these nonparametric estimates to calibrate a (time-inconsistent) lifecycle model to assess whether a consumption hump can be generated by precautionary saving given more robust measures of income uncertainty. We show that, with plausible risk aversion coefficient and discounting factors and an endogenous, rarely active borrowing limit, our refined measure of income uncertainty is large enough to generate a significant consumption hump that peaks around age 55 and...



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