

Understanding Consumption Planning Behaviors

Authors : Gaosheng Ju

Abstract : Our empirical evidence supports a model of consumption planning behaviors with the following two characteristics. First, households formulate a rational consumption target based on their desired target, displaying a diminishing sensitivity to the discrepancy between them. Second, the established target is a reference point for their planned consumption. The diminishing sensitivity leads to opposite reactions in higher and lower quantiles of both consumption targets and consumption growth to changes in economic conditions. This phenomenon accounts for the perplexingly low correlation between consumption and other macroeconomic variables. Furthermore, the opposing movements of consumption targets offer new insights into consumption-based asset pricing.

Keywords : consumption planning, reference point, diminishing sensitivity, quantile regression, asset pricing puzzles

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