Goal and Methods

Goal

- Construct precise estimates of the consumption response to “typical” labor income shocks and investigate how this varies by wealth and race

Methods

- Data with income, consumption, liquid assets, and race for ~2 million households
  - Link bank account records to public voter files with race
  - This is the first such data set at a monthly frequency in the U.S.

- Instrument for typical income variation using monthly fluctuations in firm pay
  - Builds on strengths of two distinct traditions: structural and quasi-experimental
  - Overcome challenge of endogenous labor supply in semi-structural studies
  - Overcome challenge of unusual sources of income variation in quasi-experimental studies
Figure: Impact of Instrumented Individual Pay on Nondurable Consumption

IV Elasticity Estimate = 0.23
Figure: Racial Inequality in Consumption Smoothing and Role of Assets