Discussion of

Wealth Effects on Consumption: Microeconometric Estimates from a New Survey of Household Finances

by Olympia Bover

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Summary

- Estimates of a causal effect of housing wealth on consumption
  - new *micro* data from Spain
  - results *consistent* with a precautionary component behind wealth effect

- IV techniques to control for endogeneity in wealth
  - lagged house prices at the municipality (or district) level
  - dummies indicating if real estates were inherited
- Flexible control for age, household composition, city size and household head (and partner's) characteristics.

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Estimation Estrategies

1. Non-parametric Wald Estimator

- allows a different wealth effect, $\beta(X)$, for each group
- flexible first stage, but
- using only a binary instrument

2. Linear IV

- estimates an overall wealth effect and effects for different *age group*
- a *unique* first stage prediction of wealth on instruments and controls

3. 2SLS matching estimator

- identifies *only* an overall effect $\beta^* = E[\beta(X)]$
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Results

Overall estimates: MPC out of housing wealth is 0.015

- for main residence: 0.02
- for other real estates: 0.01

1. Non-parametric Wald Estimator

- for young, high permanent income household: 0.02-0.04
- higher (up to 0.07) for older households (not precise) and in small towns

2. Linear IV

- Pattern by age (consistent with precautionary saving): largest effect (0.06) for 35-44

3. 2SLS matching estimator

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Comments

1. Concavity of Consumption Function

- Average MPC can be estimated using a linear especification $C = \alpha(X) + \beta(X)W + U$
- Alternatively, logarithmic specificafion allows to estimate wealth elasticity
- Polinomial specification can be used to reveal interesting patterns.
- In particular, as long as wealth dispersion varies with age, it is important not to focus only on the effect for “average” wealth.

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2. Validity of instruments

- First stage regressions and cross-sectional variability show that, even without exploiting time series variation
- Potential endogeneity of (lagged) house prices due to selection of area: not important the longer the household live in the area
- **but** could this explain the high value of MPC *just* for the group of 35-44 years old?

$\Rightarrow$ alternative story: young households use mortgage to buy the households *and* some other (nondurable) goods

- Suggestions:
  - check the results using only inheritance dummies as instruments
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3. Insignificance of financial wealth effects

- Is the financial wealth effect on consumption lower even for those Spanish households participating in financial markets (compared to participants in other countries?)