

Wealth, Race, and Consumption Smoothing of Typical Income Shocks

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July 17, 2020

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

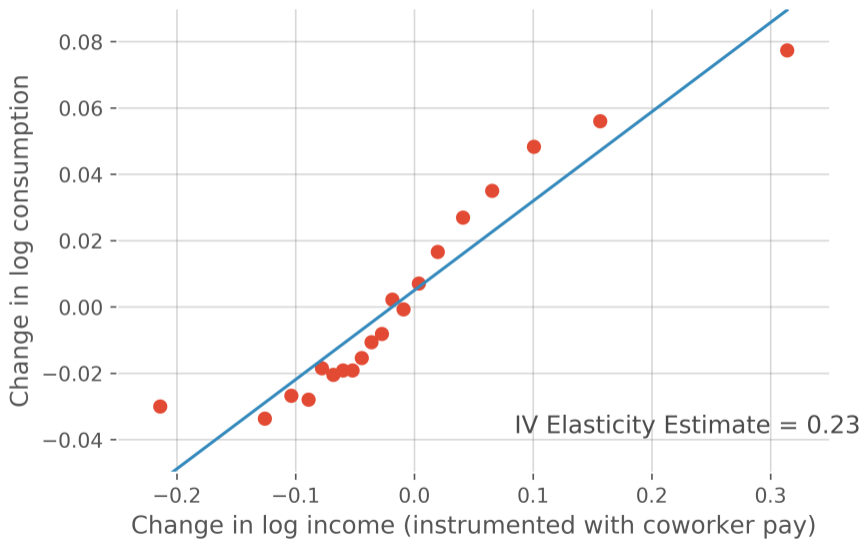


Figure: Racial Inequality in Consumption Smoothing and Role of Assets

