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DISCUSSION OF ”HOUSING, DEBT, AND THE MARGINAL PROPENSITY TO CONSUME”

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Summary

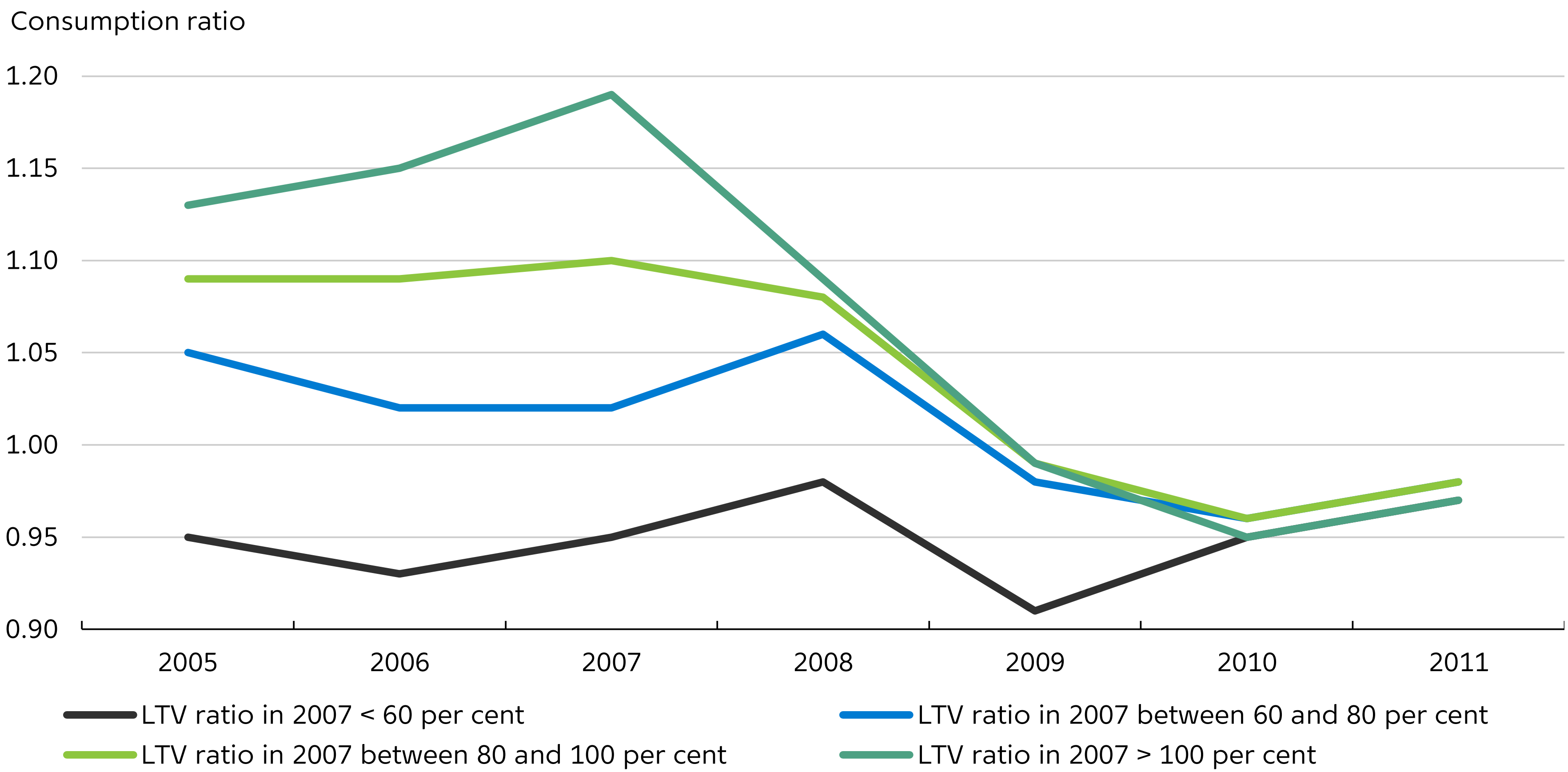
Documents that MPC is increasing in leverage for given wealth levels using Norwegian micro data

Results from a structural model of mortgage debt over the life cycle are consistent with results from micro data

Main conclusions and implications:

- Leverage matter for consumption dynamics
- A substantial fraction of housholds behave in a hand-to-mouth fashion in spite of high wealth
- Housing market is the key to those phenomena

Results in line with Danish evidence from the crisis



Source: Andersen, Duus and Jensen (2014), Household debt and consumption during the financial crisis: Evidence from Danish micro data, *Danmarks Nationalbank Working Paper*, no. 89, March.

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The measurement of wealth

How important is the contribution from housing to changes in total wealth?

Change in housing wealth

- How do homeowners know of / interpret improvements in housing wealth?
- What are the possiblities to liquidate or gain access to housing wealth (e.g. remortgaging)?
- How good is the fit of imputed house prices to actual sales prices?

Allow for different effects on MPC of different wealth components (e.g. due to liquidity and life cycle considerations)?

Other central questions

Leverage defined as debt to housing value

- What about other asset classes (cars, stocks, etc)?
- What about renters (where housing value = 0)?

What are the macroeconomic implications of your results?

- Are aggregate measures of leverage sufficient for macroeconomic modelling and forecasting, or is micro data needed?
- What is the role of expectations and the general (macro-)economic outlook for households' consumption decisions?

A few more detailed suggestions

Average income in the sample used as a proxy for permanent income

- Could average income in groups defined by education, age *etc.* improve the proxy for permanent income?

Some other studies have found a non-linear effect of leverage on change in consumption

- Allow for non-linearities in your specification?

Consumption measure capturing expenditure rather than consumption?

- Should extreme values of level or change in consumption be excluded?
- Allow for differential effects on change in consumption across consumption levels?