Heterogeneity and Aggregate Consumption: An Empirical Assessment *

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Abstract

We provide an empirical assessment of a central implication of models with idiosyncratic income risk and incomplete markets: the existence of a role for the distribution of wealth and income in shaping the dynamics of aggregate consumption. Granger causality tests and estimates of consumption Euler equation models extended to include wealth and income distribution statistics show the latter to have, at most, a small quantitative impact on aggregate consumption. This contrasts with the strong role played by current disposable income.

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