

Department of Economics
Lund University - 2023

Topics in Household Finance

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Course Information

This course offers a graduate level introduction to the field of Household Finance. Rather than providing an exhaustive overview of the field, the course focuses in depth on selected topics, in particular, Households' allocation of wealth in general and risky assets in particular, consumption decisions, and borrowing decisions. In addition, the course reviews the literature on risk preferences and the intersection of household finance and behavioral finance. The course aims at training students to develop new ideas for their own research.

Visit www.household-finance.net that hosts a repository of international metadata and research.

Grading

Grading will be based on a final research paper of up to 25 pages. Students can choose to write the paper individually or in a group of two. There is no deadline for submitting the final papers, but you can only expect to pass the course when you submit the paper.

Course Structure

Video lectures will be distributed amongst registered students by the end of March. The lectures rely heavily on the starred articles on the syllabus, but other material will also be discussed. We will hold online sessions during the last week of April to discuss the materials and potential research topics. Finally, we will meet in person on May 15th-16th in Lund to discuss research ideas and provide feedback on the research in progress.

	Topic
1	The Big Picture: Why Household Finance?
2	The Big Picture: Evidence on Household Balance Sheets
3	Risk Preferences: Measurement and Determinants
4	Participation and Asset Allocation: Demographics, Life cycle, and Background Risks
5	Participation and Asset Allocation: Nature vs. Nurture
6	Participation and Asset Allocation: Wealth Effects
7	Asset Holding and Wealth Inequality
8	Consumption: Wealth Effects I
9	Consumption: Wealth Effects II
10	Consumption: Behavioral Responses
11	Debt, Credit, and Consumption
12	Household and Behavioral Finance

COURSE OUTLINE AND READINGS

A. The Big Picture

i. Why Household Finance?

* Campbell, John Y. "Household finance." *The Journal of Finance* 61, no. 4 (2006): 1553-1604.

* Guiso, Luigi, and Paolo Sodini. "Household finance: An emerging field." (2013). *Handbook of the Economics of Finance*

ii. Evidence on Household Balance Sheets

* Campbell, John Y. "Household finance." *The Journal of Finance* 61, no. 4 (2006): 1553-1604.

* Guiso, Luigi, and Paolo Sodini. "Household finance: An emerging field." (2013). *Handbook of the Economics of Finance*

* Zinman, Jonathan. "Household debt: Facts, puzzles, theories, and policies." *economics* 7, no. 1 (2015): 251-276.

Badarinza, Cristian, John Y. Campbell, and Tarun Ramadorai. "International comparative household finance." *Annual Review of Economics* 8 (2016): 111-144.

B. Risk Preferences

i. Risk Preferences: Measurement and Determinants

* Guiso, Luigi, and Paolo Sodini. "Household finance: An emerging field." (2013). *Handbook of the Economics of Finance*

* Dohmen, Thomas, Armin Falk, David Huffman, Uwe Sunde, Jürgen Schupp, and Gert G. Wagner. "Individual risk attitudes: Measurement, determinants, and behavioral consequences." *Journal of the European Economic Association* 9, no. 3 (2011): 522-550.

Chetty, Raj, and Adam Szeidl. "Consumption Commitments and Risk Preferences." *The Quarterly Journal of Economics* 122, no. 2 (2007): 831-877.

Merton, Robert C. "Lifetime portfolio selection under uncertainty: The continuous-time case." *The review of Economics and Statistics* (1969): 247-257.

C. Participation and Asset Allocation

i. Demographics, Life Cycle, Background Risks and Portfolio Choice

* Fagereng, Andreas, Charles Gottlieb, and Luigi Guiso. "Asset market participation and portfolio choice over the life-cycle." *The Journal of Finance* (2017).

* Black, Sandra E., Paul J. Devereux, Petter Lundborg, and Kaveh Majlesi. "Learning to Take Risks? The Effect of Education on Risk-Taking in Financial Markets." *Review of Finance* 22, no. 3 (2018): 951-975.

* Guiso, Luigi, and Paolo Sodini. "Household finance: An emerging field." (2012).

* Fagereng, Andreas, Luigi Guiso, and Luigi Pistaferri. *Portfolio choices, firm shocks and uninsurable wage risk. Review of Economic Studies* (2016).

ii. Portfolio Choice: Nature vs. Nurture

* Grinblatt, Mark, Matti Keloharju, and Juhani Linnainmaa. "IQ and stock market participation." *The Journal of Finance* 66, no. 6 (2011): 2121-2164.

* Black, Sandra E, Paul J Devereux, Petter Lundborg, and Kaveh Majlesi. "On The Origins of Risk-Taking in Financial Markets." *The Journal of Finance* 72, no. 5 (2017): 2229-2278.

* Barnea, Amir, Henrik Cronqvist, and Stephan Siegel. "Nature or nurture: What determines investor behavior?." *Journal of Financial Economics* 98, no. 3 (2010): 583-604.

* Hong, Harrison, Jeffrey D. Kubik, and Jeremy C. Stein. "Social interaction and stock market participation." *The Journal of Finance* 59, no. 1 (2004): 137-163.

Brown, Jeffrey R., Zoran Ivković, Paul A. Smith, and Scott Weisbenner. "Neighbors matter: Causal community effects and stock market participation." *The Journal of Finance* 63, no. 3 (2008): 1509-1531.

iii. Wealth and Portfolio Choice

* Calvet, Laurent E., and Paolo Sodini. "Twin Picks: Disentangling the Determinants of Risk Taking in Household Portfolios." *The Journal of Finance* 69, no. 2 (2014): 867-906.

* Briggs, Joseph S., David Cesarini, Erik Lindqvist, and Robert Östling. "Windfall gains and stock market participation." *Journal of Financial Economics*, 2020.

* Chetty, Raj, Laszlo Sandor, and Adam Szeidl. "The effect of housing on portfolio choice", *Journal of Finance*, 2017.

Cocco, J. (2005). "Portfolio Choice in the Presence of Housing", *Review of Financial Studies*, 18, 535-67.

iv. Asset Holding and Wealth Inequality

* Bach, Laurent, Laurent E. Calvet, and Paolo Sodini. *Rich Pickings? Risk, Return, and Skill in the Portfolios of the Wealthy*. *American Economic Review*, 2020.

* Fagereng, Andreas, Luigi Guiso, Davide Malacrino, and Luigi Pistaferri. *Heterogeneity and persistence in returns to wealth*. *Econometrica*, 88 (1) pp.115-170, 2020.

C. Consumption

i. Wealth Effects I

* Case, Karl E., Quigley, John M. and Shiller, Robert J., 2005. Comparing Wealth Effects: the Stock Market versus the Housing Market. *Advances in Microeconomics*, 5(1), pp. 1-32.

Case, Karl E., John M. Quigley, and Robert J. Shiller. *Wealth effects revisited 1978-2009*. No. w16848. National Bureau of Economic Research, 2011.

* Mian, Atif, and Amir Sufi. *House price gains and US household spending from 2002 to 2006*. No. w20152. National Bureau of Economic Research, 2014.

ii. Wealth Effects II

* Paiella, Monica, and Luigi Pistaferri. "Decomposing the wealth effect on consumption." *Review of Economics and Statistics* (2016).

* Baker, M., Nagel, S., & Wurgler, J. (2007). The Effect of Dividends on Consumption. *Brookings Papers on Economic Activity*, (1), 231.

* Di Maggio, Marco, Amir Kermani, and Kaveh Majlesi. "Stock Market Returns and Consumption", *Journal of Finance*, 2020

iii. Behavioral Responses

* Kuhn, Peter, Peter Kooreman, Adriaan Soetevent, and Arie Kapteyn. "The effects of lottery prizes on winners and their neighbors: Evidence from the Dutch postcode lottery." *The American Economic Review* 101, no. 5 (2011): 2226-2247.

* Bertrand, Marianne, and Adair Morse. "Trickle-down Consumption." *Review of Economics and Statistics* 98, no. 5 (2016): 863-879.

* Malmendier, Ulrike, and Leslie S. Shen. "Experience Effects in Consumption." *Unpublished working paper* (2015).

D. Debt and Credit Constraints

i. Debt, Credit, and Consumption

* Aydın, Deniz. "The Marginal Propensity to Consume Out of Liquidity: Evidence from Random Assignment of 54,522 Credit Lines." (2016).

* Keys, Benjamin J., and Jialan Wang. *Minimum Payments and Debt Paydown in Consumer Credit Cards*. *Journal of Financial Economics*, 2019.

E. Household and Behavioral Finance

* Breza, Emily, "Peer Effects and Loan Repayment: Evidence from the Krishna Default Crisis", Unpublished Manuscript

*Anagol, Santosh, Vimal Balasubramaniam, and Tarun Ramadorai. Learning from Noise: Evidence from India's IPO Lotteries, *Journal of Financial Economics*, 2020.