Masterclass: Understanding Consumer Behaviour

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Programme

The aim of this Masterclass is to examine recent theory and evidence on the economics of consumer behaviour. It will focus on our understanding of consumer allocations across goods and across time. It will draw on recent developments in nonparametric estimation on micro-data and revealed preference analysis. It will not directly analyse brand choice or marketing behaviour but will consider the appropriate choice of functional forms for describing behaviour. It will also examine the role of uncertainty and risk in intertemporal consumption allocations and savings.

June 1st

10.30 – 11.00 Coffee and registration

11.00 – 13.00 Session 1: What do we know about Consumer Behaviour?

This first session will cover some basic ideas from the economic theory and some basic facts from empirical analysis. The intuition from basic revealed preference will be examined and the issues surrounding testing rationality, measuring welfare costs and predicting demand responses will be explored. The discussion will then move on to the examination of ‘shapes’ of behaviour and consider the arguments behind various popular functional forms for preferences while examining empirical estimates of income and price effects. The session will consider various approaches to dimension reduction including separability and characteristics models. Some emphasis will be placed on the role of interactions with labour supply and household demographics in understanding observed consumer behaviour.

12.30 – 14.00 Lunch
14.00 – 15.30 Session 2: **Revealed Preference, Changing Preferences and the Nonparametric Approach**

This second session will concern the design of methods to improve power of tests of rationality for both experimental and observational data. It will consider rationality over groups of decisions and over periods of time and think about how to characterise changing tastes. It will then move on to show how to provide tight bounds on demand responses (and elasticities) and on the distribution of demands (quantiles) without unnecessary functional form assumptions. The aim is to allow the distribution of demand responses/substitution parameters to vary across points in the income distribution in a fully nonparametric way. It will then consider how to best estimate the welfare costs of relative price and tax changes. The idea is to fully exploit micro data on consumer expenditures and incomes across a finite set of discrete relative price or tax regimes.

15.30 – 16.00 Coffee

16.00 – 16.50 Session 3: **Discussion, Dissection, Data and Debate**  
*Finishing in time for the 5pm Applied Micro Seminar at UCL*

The idea of this session and the similar session on the following day is to allow time for discussion of data sources and for more detailed examination of specific aspects of consumer behaviour that have been presented during the more formal sessions.

**June 2nd**

9.15 – 9.30 Coffee

9.30 – 11.00 Session 4: **Relating Intertemporal and Intratemporal Consumption Decisions**

This session will focus on modelling intertemporal consumption decisions. A key organizing idea will be the relationship between allocations across time and allocations across goods at any point in time. Starting with the basic intertemporal model it will consider estimation with repeated cross-section and panel data. The session will also consider the relationship between precautionary savings and the specification of intertemporal preferences. It will consider the evidence for consumption smoothing and, in particular, the nature of the savings-retirement puzzle.

11.00 – 11.30 Coffee

11.30 – 13.00 Session 5: **Consumption, Inequality and Income Risk**

This final formal session will take the models of consumption and income risk into the study of the distribution of consumption and income. This area has become increasingly popular and attempts to study how changes in incomes and changes in income risk get translated into consumption and savings decisions. In doing so it provides a link between
income inequality, income risk and consumption decisions. This session will show how to use changes in income and consumption inequality to identify short-run uncertainty and permanent inequality and also sources of insurance to income shocks. The manner and scope for insurance will be shown to depend upon the durability of shocks.

13.00 – 14.00 Lunch

14.00 – 15.00 Session 6: Further Discussion, Dissection, Data and Debate

As before this session will allow time for discussion of data sources and for more detailed examination of specific aspects of the ideas have been presented during the more formal sessions of the masterclass.

15.00 Close of Masterclass

Some background papers: These are all available on the Cemmap Masterclass website, where there is also a complete reading list for the Masterclass.


