<u>Saving and Consumption Trends</u> Household Intertemporal Decision at 28 in USA and China Current (C1) versus future Consumption (C2)



Can put income (Y1) in bank and collect interest Can spend next year's income (Y2) if can borrow If spend everything, broke the next year If save everything die

RATE OF TIME PREFERENCE - rate of interest needed to compensate for loss of current consumption



US SAVINGS BOOM AND BUST



S = Y - C > 0 in current US period

Y2 falls to Y2" due to lower wealth and greater uncertainty

C1/Y falls and S1/Y rises