

~~FROM THE LIBRARY SHELF~~
Utility Theory

A Microeconomic Analysis of Risk Aversion and the Decision to Self-Insure, by Charles J. Cicchetti (Arthur Andersen Economic Consulting) and Jeffrey A. Dubin (California Institute of Technology)

This study estimates a von Neumann-Morgenstern utility function using market data and microeconomic methods. We investigate the decision whether to purchase insurance against the risk of telephone line trouble in the home. Using the choices of approximately 10,000 residential customers, we determine the shape of the utility function and the degree of risk aversion. We find that risk aversion varies systematically in the population and varies with the level of income and that the observed choice behavior is consistent with expected utility maximization. *Journal of Political Economy*, February 1994, 102(1): 169-186. (Reprinted with permission of the *Journal of Political Economy*.)

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Consumption and Savings Behavior

How Does Future Income Affect Current Consumption? by Christopher D. Carroll (Board of Governors of the Federal Reserve System)

This paper tests a straightforward implication of the basic Life Cycle model of consumption: that current consumption depends on expected lifetime income. The paper projects future income for a panel of households and finds that consumption is closely related to projected current income, but unrelated to predictable changes in income. However, future income *uncertainty* has an important effect: consumers facing greater income uncertainty consume less. The results are consistent with "buffer-stock" models of consumption like those of Deaton [1991] or Carroll [1992a, 1992b], where precautionary motives greatly reduce the willingness of prudent consumers to consume out of uncertain future income. *Quarterly Journal of Economics*, February 1994, 109(1): 111-147. (Reprinted with permission of the *Quarterly Journal of Economics*.)

The Savings of the Elderly in Micro and Macro Data, by David N. Weil (Brown University and NBER)

Examination of household (micro) data on the elderly has generally concluded that they do not dissave significantly, whereas estimates using aggregate (macro) data have shown that the presence of a large elderly population leads to a lower saving rate. This paper shows that if interactions between generations are important, one would not expect these estimates to be the same. The paper presents new evidence that bequests are plausibly the source of this discrepancy. Examination of data from young households that have received or expect bequests confirms that bequests are indeed an important factor determining the saving of the young. *Quarterly Journal of Economics*,