

Anticipatory Spending

Abstract

We leverage exogenous income changes from various state and federal transfer policies to demonstrate that U.S. consumers tend to increase spending in advance of income arrival. These anticipatory increases (pre-MPCs) are small compared to the substantial increases observed following income receipt (post-MPCs), but respond to the salience of the payment event. Individuals exhibit significant heterogeneity in anticipatory spending responses, and these responses are persistent within individuals over time, suggesting that much of the correlation between MPCs and financial characteristics like liquidity is driven by personality traits. Utilizing this additional dimension of consumption response across multiple policy-induced income changes per individual, we cluster individuals into distinct types. These types' behavior and characteristics correspond roughly to canonical rational (about 45%), mental accounting (24%), rationally inattentive (21%), and present-biased or impatient consumers (9%). We find that a number of untargeted financial characteristics are well captured by this clustering, with present-biased and mental accountants having much lower levels of liquidity, income, and financial market participation than rational and rationally inattentive individuals. The response of consumption to income changes varies substantially by liquidity, event salience, and transfer size across these clusters.

This paper is joint work with Michael Gelman, Lorenz Kung, and Seung Lee.

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