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TRACKING TRENDS & PERFORMANCE IN BASIC RESEARCH

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2010 : April 2010 - Fast Breaking Papers : Ian Preston, Richard Blundell, & Luigi Pistaferri on Transitory Income Shocks

fast breaking papers - 2010

April 2010



Ian Preston, Richard Blundell, & Luigi Pistaferri talk with *ScienceWatch.com* and answer a few questions about this month's Fast Breaking Paper in the field of Economics & Business.



Ian Preston

Article Title: Consumption Inequality and Partial Insurance

Authors: Blundell, R;Pistaferri, L;Preston, I

Journal: AMER ECON REV

Volume: 98

Issue: 5

Page: 1887-1921

Year: DEC 2008

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SW: Why do you think your paper is highly cited?

The extent and nature of income uncertainty and the capacity of individual households to insure themselves against its effects is critical both to macroeconomic modelling and to understanding of the way inequality evolves at the microeconomic level. The paper is therefore of relevance to a wide audience within the discipline.

SW: Does it describe a new discovery, methodology, or synthesis of knowledge?

The idea of using the joint distribution of income and consumption to investigate these issues is one that we have advanced in earlier work but this paper is more sophisticated in its treatment of possibilities for self-insurance and the use of longitudinal data strengthens the scope to apply these ideas empirically.

SW: Would you summarize the significance of your paper in layman's terms?

The paper shows that understanding the persistence of income shocks is crucial to interpreting the evolution of inequality in income and consumption in the US.

While we show that transitory income shocks appear to be almost fully insurable, except for the very lowest income groups, permanent shocks are only partly so for any group in the population.

A growth in income risk over the 1980s was characterized by a declining persistence of shocks which helps explain why growing income inequality translated increasingly weakly into growing consumption inequality.

SW: How did you become involved in this research, and were there any problems along the way?

The subject matter lies at the confluence of the authors' interests in earnings dynamics, income distribution, and consumption and savings behavior.

A key problem in this area has been the lack of a common longitudinal data source with comparably reliable data on incomes and expenditures. We develop an imputation technique using information from reliable sources of consumption data to create a new panel series which fills the gap.

SW: Where do you see your research leading in the future?

There remains much to be done in understanding, for example, household insurance mechanisms and the nature of uncertainty in asset income.

SW: Do you foresee any social or political implications for your research?

The questions addressed here are crucial to an understanding of the implications for household living standards of changes in the distribution of income.

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KEYWORDS: LIFE-CYCLE EARNINGS; COVARIANCE STRUCTURE; TAX-REFORM; PANEL DATA; INCOME;
HETEROGENEITY; DYNAMICS; WELFARE; UNCERTAINTY; VARIANCE.

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