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SUMMARY 6

CONSUMPTION

Readings: Slides, Ch 16

Consumption

Preferences of the consumer; the intertemporal budget constraint; the optimal allocation between periods (Keynes-Ramsey rule); consumption smoothing; Central experiments: Temporary changes in income (taxes) vs. permanent changes in income (and taxes); changes in the real rate of interest; lender vs. borrower; income and substitution effects; The reduced form consumption function. Budget deficits; The impact of taxes on savings; Ricardian Equivalence (tax finance vs bond finance)