Wealth Effects in the United States: Evidence from the Combination of Two Surveys

Simone Salotti
National University of Ireland, Galway

In this article we explore the importance of data quality for the assessment of the association between wealth and consumption. We combine information from the Consumer Expenditure Survey and the Survey of Consumer Finances to build a detailed household-level cross-sectional dataset for the US for the period 1989-2007. We highlight the importance of our improved data construction procedures by producing wealth effect estimates and comparing the results with previous research that used the same surveys. We find a higher elasticity of consumption with respect to income and a lower elasticity of consumption with respect to both housing wealth and, particularly, to financial wealth. Our results show how data construction and quality may explain variation in results across studies.

Keywords: Consumption, Wealth effect, Household wealth, Sample combination.

JEL classification: D12, E21.