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Consumption Decisions in an Economy with Heterogeneous Preferences Defined by a Bivariate Distribution

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Abstract

This paper considers an economy populated by heterogeneous individuals in two respects: both parameters representing the subjective discount and the risk aversion rates are supposed to have a joint distribution. That is, consumers differ in their level of anxiety for present consumption and their risk aversion rate. The utility index is of the negative exponential type. This research provides a closed-form optimal consumption path of the average infinite-lived agent. Finally, some comparative statics experiments are carried out.

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