# The Impact of the Great Recession on Marginal Propensity to Consume: An Empirical Study from the U.S. Households

**Mengqi Zhan**

## ABSTRACT

Based on the U.S. data from 1951Q4 to 2014Q1, this paper focuses on how the Great Recession affects the American households' consumption behavior. Allowing one structural break into co-integration relationship, in ordinary least squares regressions, I find that for the U.S. households, compared to financial wealth, housing wealth has a large effect on consumption before and after 1992Q4. In the regression with a structural break close to the Great Recession, I also find consumer credit has a larger effect on durable goods consumption than disposable income does. The marginal propensities to consume out of disposable income and consumer credit are 0.075 and 0.162 respectively before 2006Q3 and -0.126 and 0.551 after 006Q3. I further my study by estimating error correction model and find a slightly faster speed of adjustment on consumption after 1992Q4 and much slower speed of adjustment on durable goods consumption after 2006Q3.