MEASURING SELF-CONTROL PROBLEMS: A STRUCTURAL ESTIMATION

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Abstract
We adopt a two-stage Method of Simulated Moments to estimate the preference parameters in a life-cycle consumption-saving model augmented with temptation disutility. Our approach estimates the parameters from the comparison between simulated moments with empirical moments observed in the US Survey of Consumer Finances; to identify the parameters we consider moments from liquid and illiquid asset holdings at different ages. We find evidence of a small but significantly positive degree of temptation. The temptation model predicts consumption choices similar to the model with standard preferences, and holdings of liquid and illiquid assets closer to those observed in the empirical data. (JEL: D91, E21, G11)

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