

## Discussion on

Khaliun Dovchinsuren

“Are There Any Heterogeneities of Excess Sensitivity  
of Consumption at the Micro-Level? If So, Why?”

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# Acknowledgement

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Disclaimer: as my knowledge on Mongolia is quite limited...



... forgive me if I have made some misunderstandings!

# Summary

- Theme: excess sensitivity of consumption of Mongolian households
- Data: by region and by income group
  - Monthly, 2009-2019(?)
- Result
  - Excess sensitivity confirmed
  - **More pronounced for higher income groups.**

# Interpretation of the main result

- **NG**: liquidity constraint hypothesis.
- **Hopeful**: permanent income shock hypothesis
  - Permanent shocks are probably more important for richer households in Mongolia.

Before commenting on the paper...

You may be wondering:  
“But I thought this was a conference on  
**International Finance!**  
What does it have to do with it?”

Actually, **A LOT!**

# Capital account dynamics

- Standard theory
  - = based on **consumption smoothing**
  - This paper casts further doubt on its relevance.
- Related: Consumption volatility puzzle
  - In emerging economies:  $\text{Std}(C) > \text{Std}(Y)$
  - This paper gives a partial explanation.

# Debate on the role of Capital Flows

- Traditional view
  - Capital account liberalization = Good
- New view since the late 90s
  - Capital controls can be good.

If capital inflows produce a consumption boom of the rich, as the paper claims, they can be even more destabilizing.



# Overall evaluation

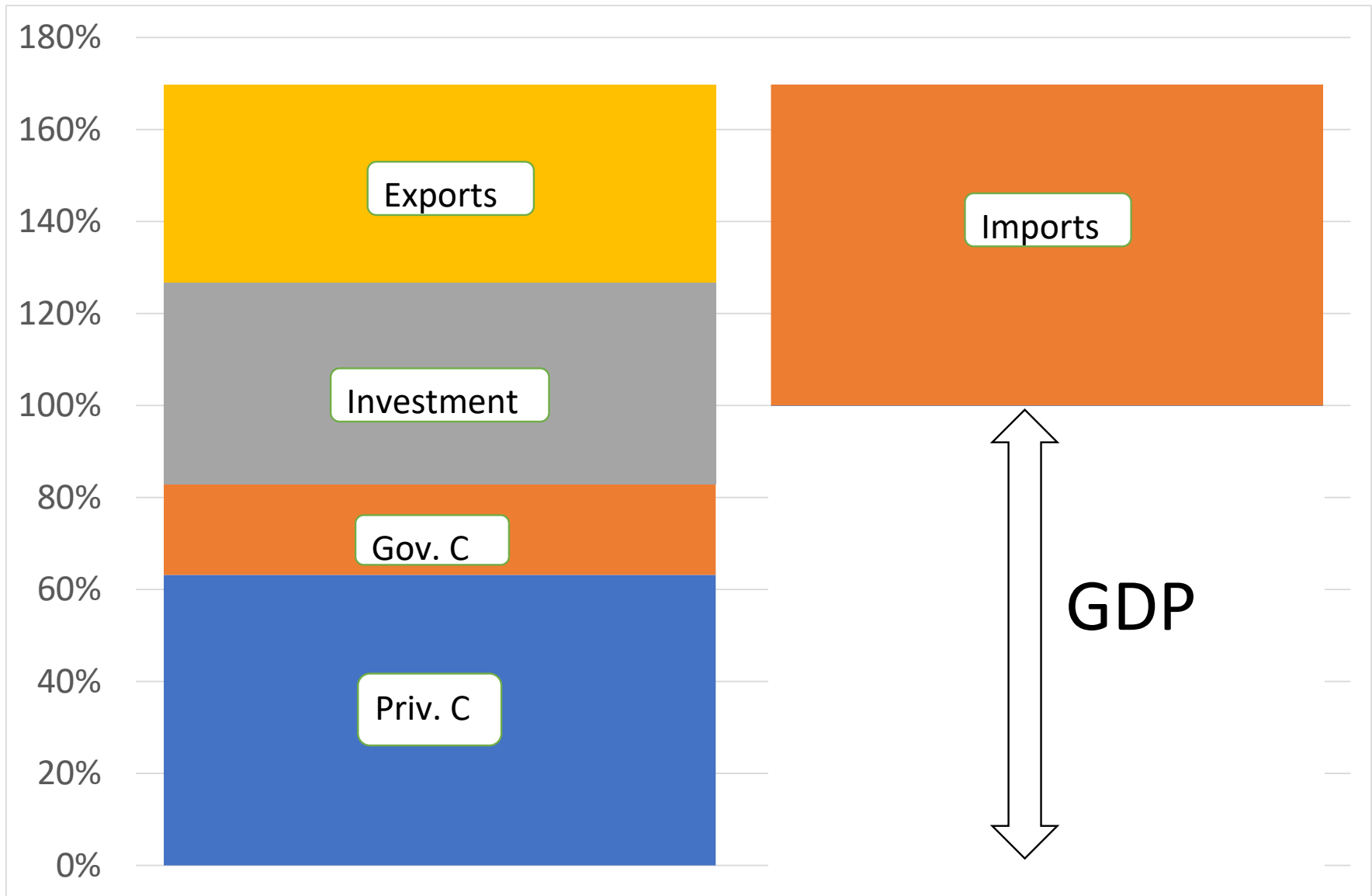
# Evaluation

- Great paper using novel (at least, for most of us) data set.
- Results are striking and thought provoking.
- The author's explanation on the estimation result is quite appealing and makes an intuitive sense.
- Why do I say that? See the next few slides.

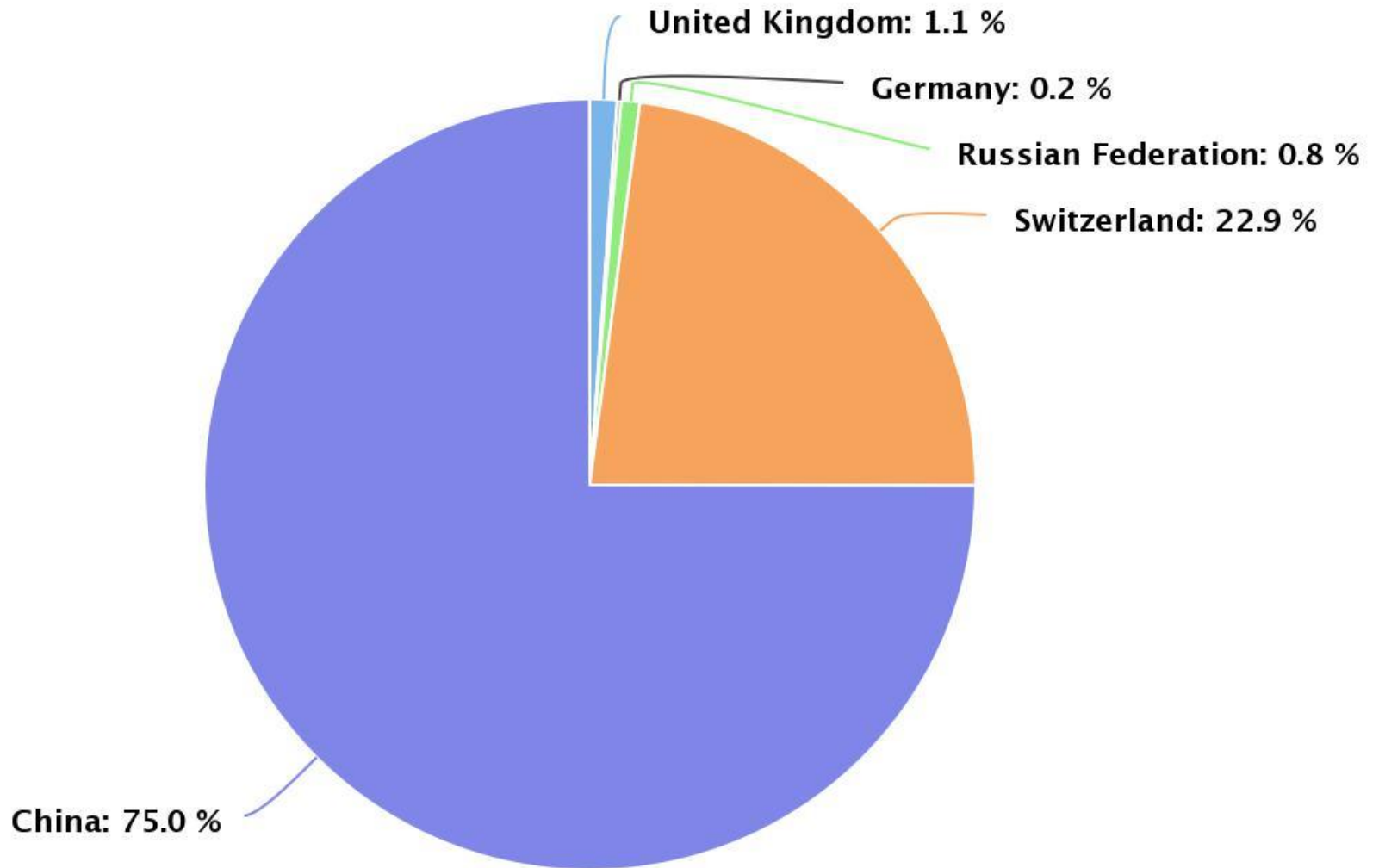
# a little bit of background knowledge

- Mongolian economy:
  - Dependent on trade
  - Export destinations: heavy reliance on China
  - Export structure: dominated by minerals/metals
- Consequence: vulnerable to external shocks
  - Chinese business cycles
  - Commodities boom-bust cycles (esp. copper (and coal))
  - Rise and fall of international capital flows
  - Political cycles: rise and fall of resource nationalism

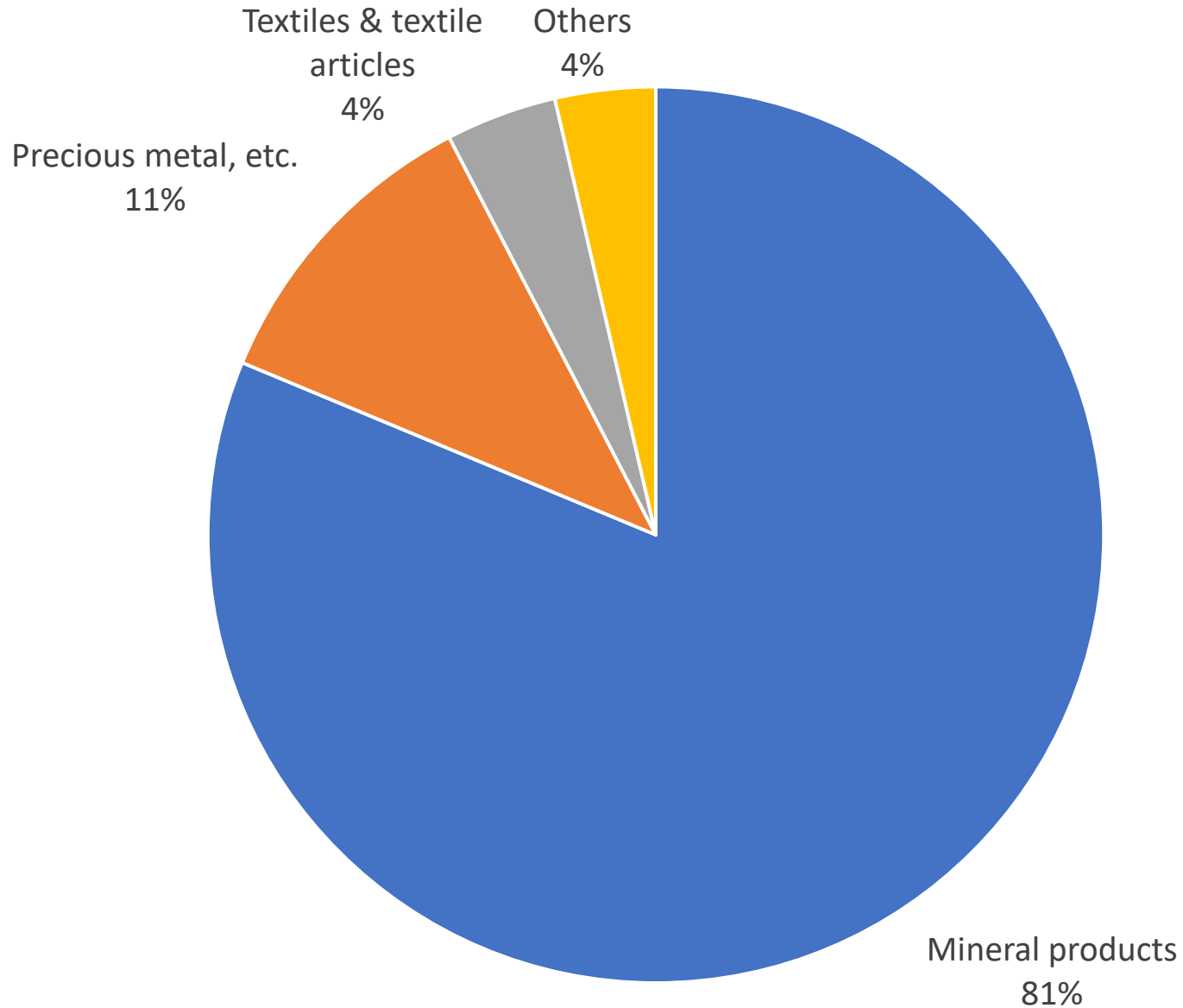
# GDP, composition, 2021



# Export composition, by country, share to total , 2020



# Exports by commodity types, 2021



# World Copper Price



# Coal (South Africa) Price



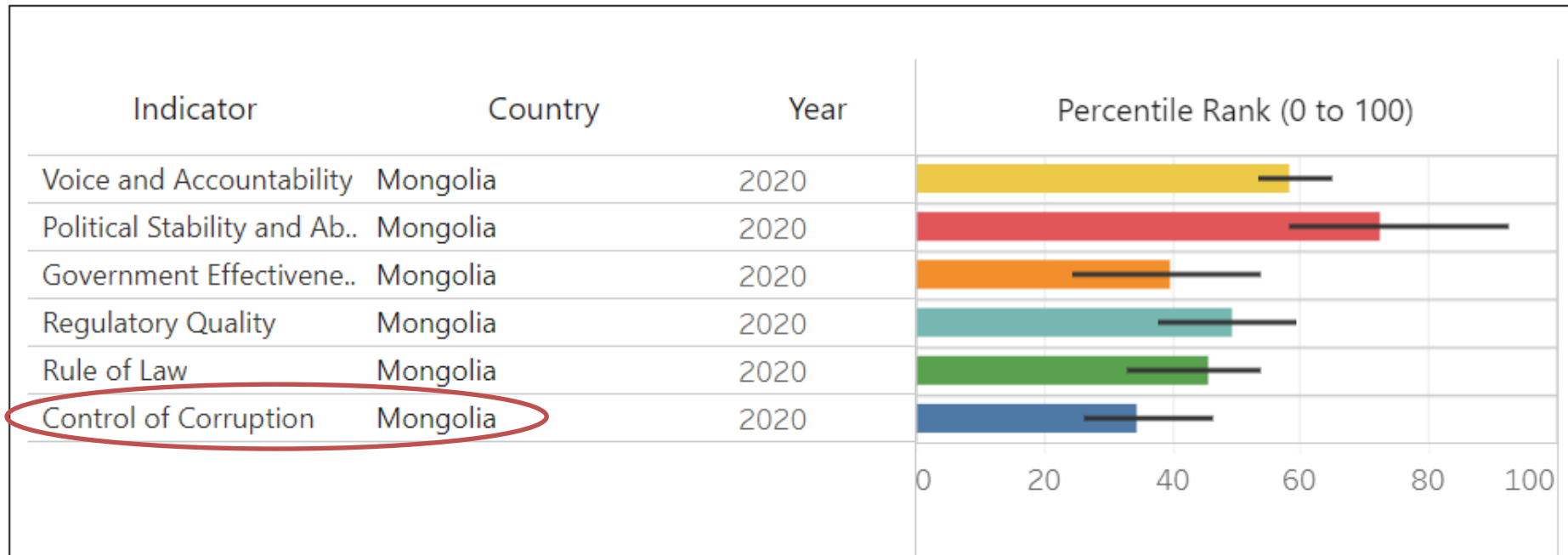




# The author's hypothesis

- Rich people have better access to
  - Natural resource related income streams.
  - Public money funded by external sources.
    - Rent seeking.
- On the flip side, they are more exposed to those external shocks, and they are more permanent in nature.
- I think this idea makes great sense!

## Worldwide Governance Indicators



# Comments

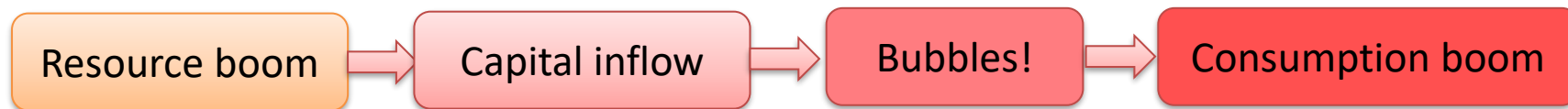
# Comment 1: Data

## (1) Expenditure data

- Total expenditure = Food + Non-food
- This include durables.
- The author may want to re-estimate the models using food consumption only, as a robustness check.

## (2) Income data

- Labor income + Agricultural income + Other income.
- Other income includes dividends but does not include unrealized capital gains.
- Could this be a source of the observed oversensitivity of rich guys' consumption?



### (3) Use of income groups

- Obvious concern: Inter-group mobility
- In particular, the richest group may include people who have been lucky to receive temporarily high income.

# Comment 2: Result

- Looks more like the **poorest** group is the exception.

Table 1. Empirical result of the model (1)

Dependent variable is change of consumption

	(1) Quintile 1	(2) Quintile 2	(3) Quintile 3	(4) Quintile 4	(5) Quintile 5
D.log(y)	0.617*** (0.055)	0.806*** (0.028)	0.837*** (0.026)	0.846*** (0.025)	0.704*** (0.028)



# Who are those poor people?

- If they are in the agricultural sector...
- They may be subject to volatile temporary income changes.
  - This might explain their weaker consumption sensitivity.

# Comment 3: Section 5B

= Decomposition of transitory vs permanent income volatility (done in Appendix D).

- Why focus on “**changes**” in income volatility?
  - Why is that important?
  - Shouldn't we focus on the relative **level** of permanent income volatility?
  - Or is there a typo? Pistoiesi (2014) estimates the level of the variance of permanent shocks.

- The author emphasizes:  
Change in permanent income volatility is exceptionally large for the **richest** group.

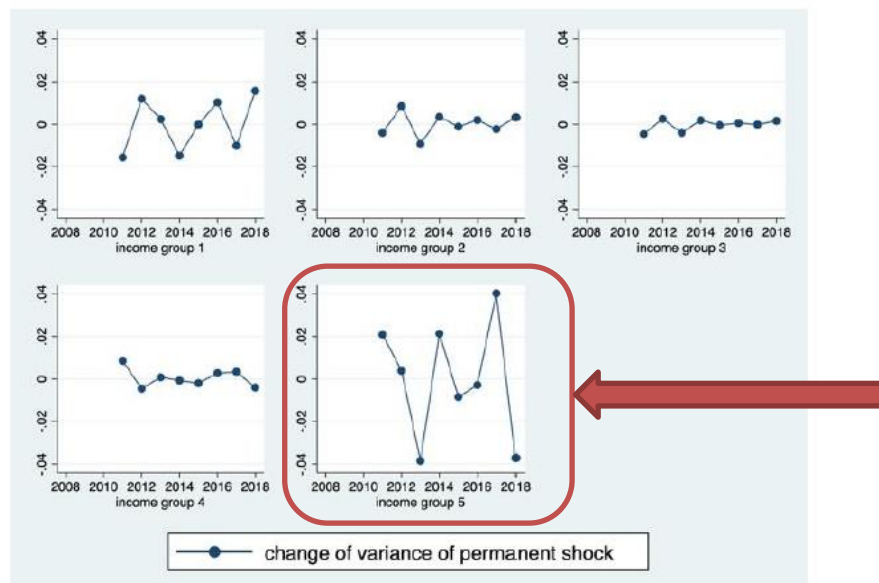


Figure 18. Estimates of the changes in the permanent shock variances by income quintile

- But this is **not** the group which exhibits a very high consumption sensitivity!

# Comment 4 Citation

- Kueng, Lorenz. "Excess sensitivity of high-income consumers." *The Quarterly Journal of Economics* 133.4 (2018): 1693-1751.

# Summary

- Great paper with great data.
- Rich implications for other countries.
  - Esp. resource dependent ones.
- I hope the author will pursue the hypothesis at the end of the paper further.

# Баярлалаа

