

Discussion Paper No. 484

THE PERMANENT INCOME HYPOTHESIS:
ESTIMATION AND TESTING

by

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April 1979

Revised June 1980

Revised June 1981

* I am grateful to Dale W. Jorgenson and Olivier J. Blanchard for discussions relating to the present topic. Marjorie Flavin, Craig Hakkio, Robert Hall, Leonard Mirman, Aba Schwartz and Larry Summers provided some helpful comments on earlier drafts. Remaining errors are mine. The former title of this paper is "Estimation of Permanent Income Consumption Functions under Rational Expectations."

ABSTRACT

The permanent income hypothesis with rational expectations is estimated and tested by an instrumental variables technique on the postwar U.S. aggregate time-series data. The hypothesis is accepted on a consumption series which includes service flows from consumer durables. If the consumption series is the one in the National Income and Product Accounts, the hypothesis is decisively rejected. An explanation is suggested to reconcile the conflicting test results.