Agnes Kovacs

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Citizenship
Hungarian

Research Interests
Household Finance, Life-Cycle Behaviour

Current Positions

Assistant Professor — 2018-
The University of Manchester

Research Associate — 2018-
The Institute for Fiscal Studies

Research Affiliate — 2021-
CEPR

Previous Positions

Nuffield Postdoctoral Prize Research Fellow — 2015-2018
Nuffield College
University of Oxford, Oxford, UK

Education

Ph.D. in Economics — 2011-2015
Norwegian School of Economics, Bergen, Norway
Thesis: *"Essays on Households' Intertemporal Resource Allocation"*
Thesis Supervisor: Orazio Attanasio (Yale University)

M.A. in Economics — 20090-2010
Barcelona Graduate School of Economics, Barcelona, Spain

Academic Visits

Fed St. Louis, US — April 2020
Yale University, US — September 2017
University College London, UK — September 2012 - June 2015

Publications

Permanent versus Transitory Shocks over the Business Cycle
with Concetta Rondinelli and Serena Trucchi, **European Economic Review**, Vol.139, 2021

This paper investigates how income shocks shape consumption dynamics over the business cycle. First, we break new ground and create a unique panel dataset of transitory and permanent income shocks by combining household-level income expectations with realizations from the DNB Household Survey for the Netherlands in 2006-2018. We then use the first and second moments of the identified income shocks in a structural life-cycle framework and show that the model matches the observed consumption patterns well. Finally, using counterfactual model simulations we assess the importance of the nature of income shocks (permanent income hypothesis); future income uncertainties (precautionary saving motive); and cohort effects, one-by-one, in shaping consumption dynamics over the observed time period in the Netherlands.

Estimating Temptation and Commitment Over the Life-Cycle
with Hamish Low and Patrick Moran, **International Economic Review**, Vol.62 (1), 2021

This paper estimates the importance of temptation (Gul and Pesendorfer, 2001) for consumption smoothing and asset accumulation in a structural life-cycle model. We use two complementary estimation strategies: first, we estimate the Euler equation of this model; and second we match liquid and illiquid wealth accumulation using the Method of Simulated Moments. We find that the utility cost of temptation is one-quarter of the utility benefit of consumption. Further, we show that allowing for temptation is crucial for correctly estimating the elasticity of intertemporal substitution: estimates of the EIS are substantially higher than without temptation. Finally, our Method of Simulated Moments estimation is only able to match well the life-cycle accumulation profiles for both liquid and illiquid wealth if temptation is part of the preference specification. Our findings on the importance of temptation are robust to the different estimation strategies.

Euler Equations, Subjective Expectations and Income Shocks
with Orazio Attnasio and Krisztina Molnar, **Economica**, Vol.87 (346), 2020

This paper makes a contribution to the large literature on Euler equation estimation. We decompose households' income shocks into their transitory and permanent components by proxying expectations using survey data and then estimate the consumption response to either of these income shocks. We merge two separate U.S. survey dataset in the analysis, the Michigan Survey is used for getting income expectations, while the Consumption Expenditure Survey (CEX) for getting the income realisation. We find compelling evidence that households can almost perfectly insulate themselves from transitory income fluctuations but they react to permanent income shocks by changing their consumption.

Working Papers

Temptation and Incentives to Wealth Accumulation
with Orazio Attanasio and Patrick Moran, **NBER Working Paper**, No.28938, 2021

This paper presents a model of consumption behavior that explains the presence of 'wealthy hand-to-mouth' consumers using a mechanism that differs from those analyzed previously. We show that a two-asset model with temptation preferences generates a demand for commitment and thus illiquidity, leading to hand-to-mouth behavior even when liquid assets deliver higher returns than illiquid assets. This model fits other features of the data, such as the fact that the Marginal Propensity to Consume declines only slowly with shock size. Moreover, temptation and commitment have important policy implications: we show that housing subsidies and mandatory mortgage amortization increase household savings.

"Breaking the Commitment Device: The Effect of Home Equity Withdrawal on Consumption, Saving, and Welfare"
with Patrick Moran, **CEPR Discussion Paper**, DP16634, 2021

This paper investigates the macroeconomic and welfare implications of permitting home equity withdrawal. We evaluate the trade-off between two opposing views: the benefit of improved consumption smoothing and the potential cost of weakened commitment. To disentangle their relative importance, we estimate a life-cycle model containing both channels. We find that the welfare cost of weakened commitment is substantial: approximately 1.7 times larger than the benefit of improved consumption smoothing. Both channels contribute equally to a 2.5 percentage point reduction in the personal saving rate. Welfare could be improved using state-contingent mortgages that better balance the trade-off between flexibility and commitment.

Computer Skills

Matlab, Julia, E-Views, Stata, LaTeX

Languages Hungarian (native), English (fluent), German (intermediate)