
*OPTIMIZATION FOR CONSUMPTION AND PORTFOLIO CHOICE
DURING RETIREMENT***Harun Aydilek**Department of Mathematics and Natural Sciences
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This paper investigates a retiree's asset allocation, housing and consumption decisions in a dynamic model with recursive utility. Our analysis, both numerically and analytically, indicates that the composition of the liquid portfolio between stocks and bonds does not depend on the elasticity of intertemporal substitution, time discount parameters and time. The share of stocks in the liquid portfolio increases with the weight of housing in utility, relative risk aversion and the mean stock return. The retiree consumes a higher, and saves a lower proportion of liquid wealth as he becomes less risk averse or less patient. Marginal propensity to consume also increases with an increase in the weight of housing in utility, mean stock return, interest rate or the elasticity of intertemporal substitution. Simulations show that the dependence of marginal propensity to consume on some of the model parameters, seen in the analytical results, is not very strong. The degree to which a household substitutes today's consumption with future consumption increases with a higher risk-free interest rate, or a higher time discount parameter and decreases with a lower intertemporal elasticity of substitution. In our setting, with a higher weight of housing in utility, housing consumption increases, but at the expense of lower investment in the risk-free bond. Our calibrated model generates the empirically documented consumption pattern. We find that recursive utility is superior to expected utility in terms of predicting the consumption data of the retirees.