

PUZZLING DECISIONS OF THE ELDERLY

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This paper explores whether a life cycle model with housing and non-market time can account for housing, wealth and consumption profiles of the elderly. A realistically calibrated, dynamic partial equilibrium model (non-market time model) where non-market time is a substitute for consumption expenditures and a complement to housing services is developed. Results are taken under different values for the parameter of productivity at home. For all values of the productivity parameter, these models explain the non-deaccumulation of wealth, housing and actual consumption of the elderly better than the standard model without non-market time. All of them also generate the hump-shaped life-cycle consumption expenditure profile. Simulation analysis suggests that bequest motives, transaction costs and health shocks are not the only factors behind the preservation of housing and wealth for the elderly. The increase in non-market time with retirement is also an important factor in answering puzzling questions, such as why the elderly not liquidate their housing, why they keep high amounts of wealth and how they can keep the quality and quantity of actual consumption unchanged despite lower consumption expenditures. This study could be useful in the analysis of policy related to the elderly by predicting many decisions of the elderly simultaneously.