



## **Asset Wealth Shocks and Household Consumption Dynamics: Evidence from the U.S. (1951–2024)**

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### **ABSTRACT**

This study investigates the dynamic relationship between consumption and household wealth, with a particular focus on how fluctuations in asset wealth influence U.S. household consumption. Using quarterly data from 1951 to 2024, we examine both the short-term and long-term effects of asset wealth shocks on consumption behaviour. The analysis employs unit root tests and the Johansen cointegration method to identify long-run equilibrium relationships among the variables. An Autoregressive Distributed Lag (ARDL) model is then used to disentangle short-run and long-run effects. The empirical results show that negative shocks to asset wealth lead to a significant decline in consumption in the immediate aftermath, with the effect gradually weakening over time. This highlights the sensitivity of household consumption to changes in wealth. We also assess the elasticity coefficients of asset wealth and labour income to test whether their sum equals one, as suggested by certain consumption theories. The findings suggest that the relationship between asset wealth, labour income, and consumption is more intricate than initially hypothesized, and it also frequently diverges from conventional theoretical predictions. These findings are beneficial for policymakers seeking to better understand the consumption response to wealth fluctuations and to design more targeted and effective economic policies.

**Keywords:** Autoregressive Distributed Lag Model, Cointegration Analysis, Expenditure Elasticity, Financial Market Volatility, Policy Interventions