Nonlinear mean reversion in the consumption-income ratio: New evidence from the OECD countries

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Abstract: Whether or not the average propensity to consume (APC) is a non-stationary process has important theoretical implications. If the APC exhibits mean reversion, then this implies that an equilibrium relationship exists between consumption and income. In this article we examine whether or not the consumption-income ratios of twenty OECD countries can be characterized by a stationary process with a non-linear trend and asymmetric adjustment. For this purpose, we employ Chen and Xie's (2015) new tests. Among the main results, it is found that the consumption-income ratios of these OECD countries are stationary after taking into account asymmetry and the non-linear trend in the long run. Our results are in line with the validity of some consumption theories such as the relative income hypothesis, the permanent income hypothesis, and the life cycle hypothesis.

Keywords: consumption-income ratio, stationarity, asymmetry, structural break

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