Saving and Retirement Behavior under Quasi-Hyperbolic Discounting*

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Abstract

This paper investigates saving and retirement behaviors in a quasi-hyperbolic discounting model, à la Laibson (1997) by incorporating endogenous labor supply. Those behaviors under quasi-hyperbolic discounting are characterized by: (i) comparing those with the long-run optimal behaviors, which are obtained under exponential discounting; and by (ii) comparing the behaviors of sophisticated consumers with those of naïve consumers. In so doing, the self-control and discounting effects are decomposed. Consumers with present biases, either naïve or sophisticated, definitely under-save and at the same time, if the wage rate is sufficiently low, get retired earlier than long-run optimizer would do. Consistent with empirical studies, therefore, under-saving and early-retirement can take place simultaneously.

Keywords: Saving, Retirement, Quasi-Hyperbolic discounting

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