The Speculative Saving Hypothesis[1]

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Abstract

Speculative saving occurs when households predict a bubble. If households do (not) face borrowing constraints, they over-(under-)save due to the positive expected net capital gain from the bubble, and the saving rate increases (decreases) with housing prices but decreases (increases) with interest rates (and the leverage ratio). This would explain domestic and global imbalances simultaneously, and explain why some countries like the U.S. and Greece undersave, while other countries like China and Japan oversave during bubble eras. Furthermore, lowering interest rates reduces consumption, thus it is also consistent with the conjecture of the Liquidity Trap.

JEL classification: E21, G12

Keywords: housing bubble, oversave, undersave, speculative saving hypothesis, Liquidity Trap

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