Optimal Consumption and Portfolio Rules: With Durability and Local Substitution (Classic Reprint)

By Ayman Hindy

Forgotten Books, United States, 2015. Paperback. Book Condition: New. 229 x 152 mm. Language: English . Brand New Book ***** Print on Demand *****.Excerpt from Optimal Consumption and Portfolio Rules: With Durability and Local Substitution We study a model of optimal consumption and portfolio choice which captures, in two different interpretations, the notions of local substitution and irreversible purchases of durable goods. The class of preferences we consider excludes all nonlinear time-additive and nearly all the non-time-additive utility functions used in the literature. We discuss heuristically necessary conditions and provide sufficient conditions for a consumption and portfolio policy to be optimal. Furthermore, we demonstrate our general theory by solving in a closed form the optimal consumption and portfolio policy for a particular felicity function when the prices of the assets follow a geometric Brownian motion process. The optimal consumption policy in our solution consists of a possible initial gulp of consumption, or a period of no consumption, followed by a process of accumulated consumption with singular sample paths. In almost all states of nature, the agent consumes periodically and invests more in the risky assets than an agent with time-additive utility whose felicity function has the same curvature and the...

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