"**Saving-Constrained Households**" (with Jorge Miranda-Pinto, Kieran Walsh, and Eric Young)

We develop a theory of saving-constrained households to explain the following facts that are difficult to reconcile with existing theories: 1) Household-level consumption is as volatile as household income on average, 2) Household-level consumption is relatively uncorrelated with income, 3) a large fraction of high-debt households exhibit marginal propensities to consume near zero, 4) lagged high expenditure is associated with low contemporaneous spending propensities. Our proposed interpretation of these facts is that household expenditure depends on time-varying minimum consumption thresholds that, if violated, yield substantial utility costs. We demonstrate that such a model can match many features of the joint dynamics of income and consumption. Our theory has implications for the propagation of macroeconomic shocks.

"**Saving Constraints, Debt, and the Credit Market Response to Fiscal Stimulus: Theory and Cross-Country Evidence**" (with Jorge Miranda-Pinto, Kieran Walsh, and Eric Young)

We document that the interest rate response to fiscal stimulus is lower in countries with high inequality or high household debt. To interpret this evidence we develop a model in which households take on debt to maintain a minimum consumption threshold. Now debt-burdened, these households use additional income to deleverage. In economies with more debt-burdened households, increases in government spending tighten credit conditions less (relax credit conditions more), leading to smaller increases (larger declines) in the interest rate. To validate our mechanism we confirm that the pre-Global Financial Crisis consumption response to fiscal stimulus is lower in countries with high inequality or household debt and in U.S. counties with high household debt. An implication of our theoretical and empirical results is that the sign of the debt-dependence of the effects of fiscal stimulus varies with credit conditions.