

„The Extensive Margin of Aggregate Consumption Demand“

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Abstract

Around one half of the cyclical changes in US non-durable consumption expenditures come from changes in the products entering households' consumption basket (the extensive margin). Changes in the basket are mostly due to fluctuations in the rate at which households add new products to their basket, while removals from the basket are relatively acyclical. These patterns are largely explained by households responding to income increases by adopting new varieties in their consumption basket. Fluctuations in household adoption are a prominent determinant of the aggregate demand for new products and amplify the long-run welfare effects of aggregate shocks.