

A Present Value Model of Current Account with Rule of Thumb Consumers: Evidence from India

Aditi Vallabh

Indian Institute of Foreign Trade

Email: vallabhaditi6@gmail.com

Abstract: This paper extends the standard approach of intertemporal modelling of current account by incorporating the rule of thumb behaviour of the individuals. The research first tests the standard model for India. The standard model is successful in explaining the movements in current account for India. The extended model highlights the myopic nature of individuals in terms of consumption spending, focusing more on present consumption. This extended model is considered a better fit than the standard model in case of India.

Keywords: Intertemporal Current Account, Permanent Income Hypothesis, Consumption Smoothing

JEL Classification Number: E21, F32, F41