

The Japanese Saving Rate: under alternative expectation formation scheme

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Abstract

In a recent paper, Chen, İmrohorođlu, İmrohorođlu (2006) (The Japanese Saving Rate. *American Economic Review* 96(5), 1850-1858) claim that TFP growth rate is the critical factor to determine the Japanese saving rate fluctuations. In this paper, I examine whether their conclusions are justified under the conditions where perfect foresight is not assumed. I find that the saving rate, generated by the model with more realistic assumption on the household's expectation forming and setting, can not reproduce the secular movement in the saving rate in Japan relative to perfect foresight case. I conclude that the expectation formation scheme and setting play an important role in Chen, İmrohorođlu, İmrohorođlu's model and their result that TFP growth rate is the main factor behind secular movements the Japanese saving rate do not hold under realistic assumption.

JEL classification: E21, O41, O47

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