Aguiar and Hurst (2005): Consumption vs Expenditures
Another explanation of the consumption-income parallel was provided by Ghez (1975). Using the 1960 CES, Ghez prepared a figure for all consumers similar to our figures 10.7 and 10.8 for subcategories of consumers and sought to explain the observed close correlation between income and consumption using a "family production function" model of the type advocated by Becker (1965). Suppose, for example, that utility is a function both of consumption \( c \) and hours of leisure \( h \). Suppose further that, because of the accumulation of experience or other human capital, hourly wages grow over the life cycle. Then individuals will have an incentive to work the longest hours when they are most productive, late in life. But this extra work takes away leisure time, giving the consumer an incentive to consume more time-substituting goods.
Consumption Growth Parallels Income Growth

Craftsmen

Operators

Professionals

Unskilled Labor

Clerical

Managers

Service

Sales

Self-Employed

--- Disposable Income --- Consumption

Fig. 10.7b  Income and consumption profiles by occupational group, 1960–61
CES
Source: Calculations by authors using CES tapes.