TABLE 3
Bounding optimization frictions and the EIS

	Notch				
	70	75	80	85	Pooled
Panel A: Adjustment factor a					
(1) Notched banks only	0.11	0.15	0.15	0.03	0.12
	(0.02)	(0.02)	(0.03)	(0.01)	(0.01)
(2) Dominated region	0.21	0.30	0.15	0.08	0.22
	(0.02)	(0.03)	(0.02)	(0.03)	(0.01)
(3) Entire hole	0.67	0.60	0.57	0.40	0.61
	(0.05)	(0.02)	(0.04)	(0.09)	(0.02)
Panel B: Elasticity of intertemporal substitution σ					
(4) Unadjusted	0.02	0.08	0.06	0.11	0.05
	(0.00)	(0.01)	(0.01)	(0.04)	(0.01)
(5) Dominated region: notched banks only	0.02	0.11	0.08	0.11	0.07
	(0.00)	(0.01)	(0.02)	(0.04)	(0.01)
(6) Dominated region: all banks	0.03	0.17	0.08	0.13	0.09
	(0.00)	(0.02)	(0.02)	(0.05)	(0.01)
(7) All mass in the hole is friction	0.16	0.50	0.31	0.30	0.30
	(0.05)	(0.07)	(0.08)	(8.53)	(0.03)

Notes: The table shows how the estimated EIS is affected by assumptions on optimization frictions. The top panel of the table shows the friction adjustment factor a estimated in three different cases. Row (1) shows the friction adjustment based on mass in the dominated region using only notched banks, row (2) shows the friction adjustment based on mass the dominated region using all banks (our baseline estimates), while row (3) shows the friction adjustment assuming that all mass in the hole is due to friction. The bottom panel of the table shows the estimated EIS when not adjusting for optimization friction (in row (4)), and when adjusting for friction using each of the three measures provided in the top panel (in rows (5)–(7)). As explained in the main text of the article, the EIS estimates provided in rows (4) or (5) are in general lower bounds, whereas the EIS estimate provided in row (7) is an upper bound. The upper bound is based on the extreme assumption that all density mass in the hole—not just the mass in the much narrower dominated region—can be explained by friction rather than by heterogeneity in true preferences (*i.e.* true preferences are assumed to be homogeneous in the population).