

**Pre-Section Exercise #11****1 Mian & Sufi**

Mian and Sufi investigate the role that homeowners responded to the rise in housing prices leading into the financial crisis. In particular, they are interested in seeing whether households responded to the increase in the value of their homes by increasing their borrowing.

1. In their article Mian & Sufi discuss three different theoretical predictions for how household consumption would respond to changes in the value of their home.

*a)* What are these three models and how do their predictions differ?

*b)* Which model do Mian & Sufi think applies to the financial crisis?