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Author: M. Filippini B. Hirl G. Masiero

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Habits and rational behavior in residential electricity demand

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Abstract

Households make an investment analysis when buying new electrical appliances. Therefore, expectations about future electricity consumption may have an impact on current consumption and investment decisions. Dynamic partial adjustment models of residential electricity demand neglect rational consumer behavior. In this paper we propose a model for residential electricity demand that allows for forward-looking behavior. We estimate lead consumption models using two stages least squares fixed effects on a panel of 48 US states between 1995 and 2011. We find that expectations about future consumption have an impact on current consumption decisions. This novel approach may improve our understanding of the dynamics of residential electricity demand and the evaluation of the effects of energy policies.

JEL classification: D12, D84, D99, Q41, Q47, Q50

Keywords: Residential electricity, Partial adjustment models, Dynamic panel data models, Rational habits

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