

## **EULER EQUATION WITH HABITS AND MEASUREMENT ERRORS: ESTIMATES ON RUSSIAN MICRO DATA**

The present paper utilizes micro-level panel data to account for the preference heterogeneity, measurement errors, and the impact of macroeconomic shocks in estimating the Euler consumption equation. The presence of multiplicative habits is checked with the LM-test in a GMM framework. The authors obtain estimates of the elasticity of intertemporal substitution and of the subjective discount factor, which are consistent with the theoretical model and can be used for calibration, as well as for a Bayesian estimation of DSGE models for the Russian economy.

The paper is interesting yet it presents some deficiencies in terms of technical adequacy and literature review. I would recommend the paper to be revised and resubmitted.

I have the following comments:

1. Please rename the section Literature survey to Literature review. The authors should definitely clarify in detail how the present work differentiates (or not) with respect to the current stream of literature. The entire section should be re-written.
2. In particular, please specify what is the innovation and/or the methodological difference between your paper and the ones by Gayle and Khorunzhina (2012, 2014)?
3. Please explain why you decide to implement only the GMM approach, without even mentioning the nonparametric ME and the parametric ME as proposed by Gayle and Khorunzhina (2012)?
4. The significant works by Gayle and Khorunzhina (2012, 2014) are either missing in the text and/or are wrongly referenced in the bibliography.

### References

Gayle W-R and Khorunzhina N (2012). Estimation of optimal consumption choice with habit formation and measurement errors using micro data, mimeo.

Gayle W-R and Khorunzhina N (2014). Micro-Level Estimation of Optimal Consumption Choice with Intertemporal Nonseparability in Preferences and Measurement Errors, Working Paper SSRN.