

# Income and Wealth inequality: Theory and Evidence

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**The first meeting will take place on April 10, 2018 in room 0.017 (Juridicum). We will discuss further organizational details at that meeting.**

## **1 Evidence on income and wealth inequality**

The goal of this course is to review and discuss the existing evidence on current income and wealth inequality and its changes over time. We will decompose wealth and income and look at the financial portfolios and income by source of households. The goal is to identify the main drivers of inequality at different points in time. We will explore how wealth and income vary with household characteristics and what the joint distribution of income and wealth is. The joint distribution of income and wealth is a key prediction from theoretical models of wealth inequality that we will cover in this class. The discussion should be largely self-contained and is mainly based on the following literature.

### **Suggested readings**

1. Heathcote, J., F. Perri, and G. L. Violante (2010): “Unequal we stand: An empirical analysis of economic inequality in the United States, 1967-2006,” *Review of Economic Dynamics*, 13(1), 15-51.
2. Kuhn, M., and J.-V. Ríos-Rull (2016): “2013 Update on the US Earnings, Income, and Wealth Distributional Facts: A View from Macroeconomics,” *Federal Reserve Bank of Minneapolis Quarterly Review*, 37(1).
3. Piketty, T., and E. Saez (2001): “Income Inequality in the United States, 1913-1998 (series updated to 2000 available),” NBER Working Papers 8467, National Bureau of Economic Research, Inc.

4. Piketty, T., E. Saez, and G. Zucman (2016): “Distributional National Accounts: Methods and Estimates for the United States,” Discussion paper, National Bureau of Economic Research.
5. Saez, E., and G. Zucman (2014): “Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data,” NBER Working Papers 20625, National Bureau of Economic Research, Inc.

## 2 Theoretical models of wealth inequality

The second part of the introduction will cover workhorse models from the macroeconomics literature to explore wealth inequality. We will start reviewing the complete markets model as a benchmark and contrast it to the standard incomplete markets model. We will discuss some extensions to the standard incomplete markets model that have been introduced to better explain the empirical evidence. The focus will be on understanding the sources and mechanisms behind wealth inequality in these models. As part of the class, we will also look at recent papers that highlight the shortcomings of the mechanisms in the existing models. Depending on student’s interest, we will also look at models where financial markets are endogenously incomplete due to enforcement or information frictions. The discussion will be mainly based on the following literature.

### Suggested readings

1. “Recursive Macroeconomic Theory”, Lars Ljungqvist and Thomas J. Sargent (2012, 3rd edition)
2. “Macroeconomic Theory”, Dirk Krüger, manuscript (2002)
3. “Consumption and Saving: Theory and Evidence”, Dirk Krüger, manuscript (2004)
4. “Saving and Wealth Inequality,” Mariacristina De Nardi and Giulio Fella. CEPR discussion paper 11746, 2017.
5. “Recursive Macroeconomic Theory”, Lars Ljungqvist and Thomas J. Sargent (2012, 3rd edition)
6. ”Does income inequality lead to consumption inequality? Evidence and theory.” Krueger, Dirk, and Fabrizio Perri, *The Review of Economic Studies* 73.1 (2006): 163-193.

7. "Human capital risk, contract enforcement, and the macroeconomy.", Krebs, Tom, Moritz Kuhn, and Mark LJ Wright, *The American Economic Review* 105.11 (2015): 3223-3272.
8. "The dynamics of inequality", Gabaix, Xavier, Lasry, Jean-Michel, Lions, Pierre-Louis, and Moll, Benjamin, *Econometrica*, 84(6), p. 2071–2111, (2016)

### **3 Course requirements**

After the introduction to the topic (2-3 classes), each student is expected to present a paper related to the topic of the course. The plan is to have one paper presented and discussed each week. Active participation in the discussion in each week is expected. Each presentation should include a discussion of the paper using some empirical and/or quantitative theoretical work related to the paper. Each student is expected to write a research proposal that has to be handed in. The research proposal must sketch a clear idea for a research project and must contain some empirical and/or quantitative work. There will be additional time to work on research proposals after the last meeting.