Modeling Income and Wealth Inequality

Pascal Michaillat

https://www.pascalmichaillat.org/t5.html

Heterogenous - Agent Matching (HAM) model:

- **heterogenous wealth**: each household i starts with endowment of money N_i

  $\longrightarrow$ captures wealth inequality

  $\longrightarrow$ $\sum_i N_i = N$

- **heterogenous capacity** each household i provides k_i services to market

  $\longrightarrow$ captures inequality in capital holdings, in human capital $^{+ \text{ experience}}$, in social capital, and heterogeneity in taste for work / leisure

  $\longrightarrow$ $\sum_i k_i = k$

  $\longrightarrow$ generates income inequality