Zoomers and Boomers Asset Prices and Intergenerational Inequality

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We construct a perpetual youth DSGE model with aggregate un- certainty in which there are dynamically complete markets and agents have Epstein-Zin preferences. We prove that, when endowments have a realistic hump-shaped age-profile, our model has three steady-state equilibria. One of these equilibria is dynamically inefficient and displays real price indeterminacy. We estimate the parameters of our model and we find that a fourth-order approximation around the indeterminate steady-state provides the best fit to U.S. data. Our work interprets the large and persistent generational inequality that has been observed in western economies over the past century as the result of uninsurable income shocks to birth cohorts.

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