

Material

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February 2023

1 Motivation

The confidence bands in Figure 4 also show that Gini coefficients for both income and wealth are tightly estimated, although the confidence bands are somewhat wider in the historical data.¹³ The observed long-run trends are clearly statistically significant. America is considerably more unequal today than it was in the 1970s, with respect to both income and wealth.

Panel A of Figure 2 plots the average and median return to financial wealth for individuals in different percentiles of the financial wealth distribution, pooling data for all years (2005–2015). The differences in returns across different parts of the wealth distribution are large. Moving from the 10th to the 90th percentile of the financial wealth distribution the average return increases by 160 basis points

(from minus 0.44% to 1.15%); the median return increases by 185 basis points (from minus 1.03% to 0.82%).

Representative agent models typically assume that all individuals in the economy have the same preferences and constraints, and they are represented by a single representative agent. The behavior of this agent is assumed to be representative of the behavior of all individuals in the economy.

In contrast, heterogeneous agent models allow for a more detailed analysis of the behavior of different types of individuals in the economy. These models recognize that individuals have different preferences, constraints, and expectations, and that these differences can lead to heterogeneous behavior and emergent macroeconomic outcomes.

2 Questions about aggregation bias

1. Does heterogeneity matter for aggregate quantities and prices along the balanced growth path?
2. Does heterogeneity matter for aggregate quantities and prices over the business cycles?
3. And for the welfare cost of business cycles?
4. What is the relation of heterogeneity and asset prices?

5. What are the (aggregate and distributional) effects of temporary tax cuts?
6. What are the (aggregate and distributional) effects of monetary policy?
7. How does price stickiness matter for the business cycle?
8. What is the relation of wealth inequality and financial frictions?
9. Political-economy of all previous questions.

3 Missing Intercept

Example: Autor-Dorn-Hanson (2013) “import competition explains one-quarter of the contemporaneous aggregate decline in US manufacturing employment”

Arrive at this number by scaling regression coefficient estimated from regional data by total Chinese import penetration