1 Introduction

The recent heterogeneous agent (HA) macro literature has managed to construct models that are both microeconomically realistic in terms of household financial choices and are able to match measures of wealth inequality by assuming heterogeneity in time preference rates across agents, either in an infinite horizon context or using a life cycle specification.

This literature makes the traditional assumption that all households earn the same rate of return for publicly available assets (like bank accounts or stock investments). But newly available estimates from Norwegian registry data find that, in fact, there are large differences across households in rates of return even within narrowly defined categories of assets (Fagereng, Guiso, Malacrino, and Pistaferri (2020)).

My research agenda is to understand both the consequences of these differences in rates of return, and their causes. Work that I've accomplished so far has found that when heterogeneity in rates of return consistent with the norwegian data are substituted for the usual assumption of homogeneous rates of return, time preference heterogeneity is no longer necessary for such models to match the observed degree of inequality (in either the infinite horizon or the life cycle specification of the model).

My agenda if I were to receive the NBER fellowship would be to:

- Incorporate standard portfolio choice between a risky and a safe asset with heterogeneity in returns consistent with the more detailed findings of the Norwegian data.
    - I am confident that adding portfolio choice will not change the fact that rate of return heterogeneity is sufficient to account for observed inequality.
- To add a bequest motive in which bequests are a luxury good. I anticipate that this will allow the model to even match the extreme upper tail of the wealth distribution which the life cycle model does not fit very well in the current specification.
- To begin work aimed at understanding the root causes of rate of return heterogeneity.
    - This will build on work by Mateo () which finds that there is a great deal of heterogeneity in households beliefs about rates of return.
    - It will also build on work by Luigi Guiso (in Guiso, Sapienza, and Zingales (2008) and a number of other papers with various coauthors) emphasizing the importance of differences in trust across households. Low trust households are unlikely to save or invest their savings in risky assets. My aim will be to explore whether differences in believed rates of return are explained by differences in the degree of trust and then to examine hypotheses about the origins of these differences in trust.
    - I anticipate that this work may build on the growing literature about differences in economic behavior that appear to correspond to cultural or historical origins of the economic agents (Raquel Fernandez has been a leading figure in this literature; see Fernández (2011) for an extensive review).

References

Benhabib, Jess, and Alberto Bisin (2018): "Skewed Wealth Distributions: Theory and Empirics," *Journal of Economic Literature*, 56(4), 1261–91.

Fagereng, Andreas, Luigi Guiso, Davide Malacrino, and Luigi Pistaferri (2020): "Heterogeneity and Persistence in Returns to Wealth," *Econometrica*, 88(1), 115–170.