

1 Introduction

A quantitative analysis of household finance can be accomplished using a standard framework of household decision making found in the computational heterogeneous agent (HA) macro literature. In particular, the setting is well equipped to study to the relationship between the consumption-saving behavior and income and wealth inequality.

One of the many important features of saving and borrowing behavior is the rate of return to assets. Reliable estimates of individual returns computed using population data in Norway by Fagereng, Guiso, Malacrino, and Pistaferri (2020) suggest that there is substantial heterogeneity in the rate of return. This is a notable finding for the management of consumer finances: it is well known that differences in returns to assets will lead to a skewed distribution of wealth¹.

The preliminary findings of this work provide some affirmation of this sentiment. A model which allows for heterogeneity in the rate of return produces a distribution of wealth which closely matches the inequality in measured wealth holdings.

However, what is less clear are (i) the determinants of these heterogeneous returns and (ii) the quantitative effects of these determinants on wealth inequality through this returns channel. Outside of incorporating other relevant features of the household consumption-saving problem, like bequest motives and portfolio choice, the next step in this work will be to provide answers to (i) and (ii). Two insights from the literature which I would like to explore to accomplish this are *financial literacy* and *trust in financial institutions*.

This proposal will outline the aforementioned preliminary results. Then I discuss the proposed extensions of the model in detail. The completion of these extensions will result in a finalized, deliverable version of this paper.

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.

¹Benhabib and Bisin (2018) provide a useful survey of the wealth inequality literature.