

# Econ890: Topics in Income and Wealth Distribution

Prof. Lutz Hendricks, UNC, Spring 2021

---

The outline consists of lectures (presented by me) and discussions (student presentations with class discussion).

The exact dates are approximate and will change as students decide which papers to present. Feel free to suggest additional papers or topics to add.

## 1 Basic Facts

1-20-Wed: Lecture: [Basic facts about income and wealth distribution](#)<sup>1</sup>

- U.S. inequality over time: rising top incomes and wealth shares, skill premium.
- Brief overview of data sources and limitations.

## 2 Earnings Distribution

**Lecture: Facts and Classic Papers** [1-25-Mon]

- Rising skill premium: [Katz and Murphy \(1992\)](#).
- SBTC and the race between education and technology ([Goldin and Katz, 2008](#)).
- Labor market polarization: [Autor and Dorn \(2013\)](#), [Acemoglu and Restrepo \(2019\)](#)
- Models with exogenous earnings processes: [Huggett \(1996\)](#), [Castaneda et al. \(2003\)](#)
- RIP and HIP: [Guvenen \(2007\)](#)
- Administrative earnings data: [Song et al. \(2019\)](#)

**Discussions:** Models with endogenous earnings distribution:

- [1-27-Wed] [Huggett et al. \(2011\)](#): Ben-Porath human capital model that fits earnings distribution moments over the life-cycle.
- [Guvenen and Kuruscu \(2010\)](#): Ben-Porath human capital model that fits earnings distribution moments over time.
- [2-1-Mon] [Guvenen et al. \(2020\)](#): Matching of worker skills to job characteristics.
- [Silos and Smith \(2015\)](#): Matching of worker skills to jobs.
- [2-3-Wed] [Bhattacharya et al. \(2013\)](#): Investments in managerial skills.

---

<sup>1</sup> References are in the slides.

- [Hubmer \(2018\)](#): A model of job ladders.
- If there are more papers, let's discuss them, but I cannot find them. A big opening in the literature.

Human capital and knowledge:

- [Akcigit et al. \(2020\)](#): a model of career choice; studies how human capital and knowledge (R&D) interact.
- This is another topic on which surprisingly little has been written.

Intergenerational transmission of human capital:

- [2-8-Mon] [Lee and Seshadri \(2018\)](#) a model of investment in children.
- [Herrington \(2015\)](#): public education financing affects intergenerational mobility.

Cross-country differences:

- [2-10-Wed] [Guvenen et al. \(2013\)](#): Ben-Porath human capital model. Taxes explain cross-country differences.
- [Lagakos et al. \(2018\)](#): Cross-country differences in experience profiles.
- [Guner et al. \(2018\)](#): Investments in managerial skill.

International trade?

### 3 Rising and Taxing Top Incomes

**Lecture: Facts and stories.** [2-15-Mon]

- World Top Incomes DataBase
- Facts: [Alvaredo et al. \(2013\)](#), [Piketty and Saez \(2014\)](#), [Guvenen and Kaplan \(2017\)](#)
- International: [Hoffmann et al. \(2020\)](#)
- Understanding top incomes:
  - rising return to “skill”: [Kaplan and Rauh \(2013\)](#) presents evidence that rise in top incomes is broad based; top businesses are typically not inherited.
  - CEO pay: [Bivens and Mishel \(2013\)](#) argue that rising CEO pay reflects rents and should be taxed.
  - superstars: Rosen
- Taxing top incomes:
  - [Diamond and Saez \(2011\)](#): framework for thinking based on elasticities; very useful.

- [Piketty et al. \(2014\)](#): mostly useful for evidence about behavioral responses and costs of redistribution.
- The normative question of how to tax people:
  - [Mankiw \(2013\)](#): a thoughtful discussion of different principles and their flaws.

**Discussions:** Rising top incomes: Theory.

- [2-17-Wed] [Gabaix et al. \(2016\)](#): theoretical notes on how rapidly rising top incomes can be generated to match the evidence.
- [Gabaix and Landier \(2008\)](#): rising CEO pay reflects increasing firm sizes and is efficient.

Taxing top earners: Theory.

- [2-22-Mon] [Badel and Huggett \(2017\)](#): an extended elasticity formula for the revenue maximizing top tax rate; tested against a human capital model.

Taxing top earners: Superstar models.

- [2-24-Wed] [Guner et al. \(2016\)](#), [Krueger and Kindermann \(2020\)](#): both are models with high top income states, but their implications for optimal top marginal tax rates are very different.

Taxing top earners: Human capital

- [Badel et al. \(2020\)](#): a human capital model to evaluate the optimal top marginal tax rate.

Taxing top earners with entrepreneurship: see Section [Section 5](#) on Wealth Inequality.

## 4 Effects of Taxation

**Discussions:** Taxation and innovation.

- [3-1-Mon] [Jones \(2019\)](#): optimal taxation when productivity is due to R&D.
- [Akcigit et al. \(2018\)](#): empirical evidence that innovations is responsive to tax incentives.
- [3-3-Wed] [Akcigit and Stantcheva \(2020\)](#): a survey.

Taxation and human capital:

- [Krueger and Ludwig \(2016\)](#)

Taxation and labor supply:

- [3-8-Mon] [Erosa et al. \(2012\)](#)
- [Laun and Wallenius \(2016\)](#)

Taxation and growth.

- [Jaimovich and Rebelo \(2017\)](#): nonlinear effects of taxes on growth.

## 5 Wealth Inequality

**Lecture: Facts and classic models.** [3-10-Wed]

- [Fagereng et al. \(2016\)](#): question the accuracy of the [Piketty and Saez \(2014\)](#) inference from tax returns for top wealth holdings. Uses administrative data from Norway. Also document heterogeneity in rates of return.
- Surveys: [De Nardi and Fella \(2017\)](#), [Benhabib and Bisin \(2018\)](#).

**Discussions:** Rising wealth inequality over time:

- [3-15-Mon] [Hubmer et al. \(2020\)](#): quantitative model to understand sources of rising wealth inequality.
- [Hintermaier and Koeniger \(2011\)](#): quantitative model, identified by matching wealth distribution shape parameters from all SCF years.
- [3-17-Wed] [Kaymak and Poschke \(2015\)](#), [Ales \(2015\)](#): quantitative model; emphasizes role of taxes and wage distribution.

Entrepreneurship:

- [Cagetti and Nardi \(2006\)](#): benchmark model of entrepreneurship, bequests, and wealth distribution on which much of the subsequent literature builds.
- [3-22-Mon] [Brüggemann \(2017\)](#): progressive taxation in a model based on [Cagetti and Nardi \(2006\)](#).
- [Imrohoroglu et al. \(2018\)](#): similar to [Brüggemann \(2017\)](#).

Inheritances and estate taxation:

- [3-24-Wed] [Cagetti and De Nardi \(2009\)](#): studies estate taxation in a model similar to [Cagetti and Nardi \(2006\)](#).
- [Ocampo and Yuki \(2006\)](#): how important are intergenerational transfers for wealth inequality?

Rich earnings processes:

- [3-29-Mon] [De Nardi et al. \(2018\)](#): uses an earnings process estimated from administrative data in a standard life-cycle model.

Rate of return heterogeneity:

- [Benhabib et al. \(2019\)](#): matches data on rates of return from Sweden.
- [3-31-Wed] [Kuhn et al. \(2020\)](#): importance of portfolio composition and rates of return for rising wealth inequality.

Wealth inequality and mobility:

- [Gomez \(2020\)](#): presents data that shed light on the role of mobility for increasing top wealth holdings. Many of the top wealth holders changed identities over time.

## 6 References

### References

- Acemoglu, D., Restrepo, P., 2019. Automation and New Tasks: How Technology Displaces and Reinstates Labor. Working Paper 25684. National Bureau of Economic Research. URL: <http://www.nber.org/papers/w25684>, doi:10.3386/w25684.
- Akcigit, U., Grigsby, J., Nicholas, T., Stantcheva, S., 2018. Taxation and Innovation in the 20th Century. Working Paper 24982. National Bureau of Economic Research. URL: <http://www.nber.org/papers/w24982>, doi:10.3386/w24982.
- Akcigit, U., Pearce, J.G., Prato, M., 2020. Tapping into Talent: Coupling Education and Innovation Policies for Economic Growth. Technical Report w27862. National Bureau of Economic Research. URL: <https://www.nber.org/papers/w27862>, doi:10.3386/w27862.
- Akcigit, U., Stantcheva, S., 2020. Taxation and Innovation: What Do We Know? Technical Report c14428. National Bureau of Economic Research. URL: <http://www.nber.org/books-and-chapters/innovation-and-public-policy/taxation-and-innovation-what-do-we-know>.
- Ales, L., 2015. Comments on ‘The evolution of wealth inequality over half a century: The role of taxes, transfers and technology’ by Baris Kaymak and Markus Poschke. Journal of Monetary Economics URL: <http://www.sciencedirect.com/science/article/pii/S0304393215001348>, doi:10.1016/j.jmoneco.2015.10.008.
- Alvaredo, F., Atkinson, A.B., Piketty, T., Saez, E., 2013. The Top 1 Percent in International and Historical Perspective. The Journal of Economic Perspectives 27, 3–20. URL: <http://www.jstor.org/stable/41955542>.
- Autor, D.H., Dorn, D., 2013. The Growth of Low-Skill Service Jobs and the Polarization of the US Labor Market. The American Economic Review 103, 1553–1597. URL: <http://pubs.aeaweb.org/doi/abs/10.1257/aer.103.5.1553papers3://publication/doi/10.1257/aer.103.5.1553>. bibtex: autor\_growth\_2013.
- Badel, A., Huggett, M., 2017. The sufficient statistic approach: Predicting the top of the Laffer curve. Journal of Monetary Economics 87, 1–12. URL: <http://www.sciencedirect.com/science/article/pii/S0304393217300156>, doi:10.1016/j.jmoneco.2017.02.001.
- Badel, A., Huggett, M., Luo, W., 2020. Taxing Top Earners: a Human Capital Perspective. The Economic Journal 130, 1200–1225. URL: <https://academic-oup-com.libproxy.lib.unc.edu/ej/article/130/629/1200/5741697>, doi:10.1093/ej/ueaa021. publisher: Oxford Academic.
- Benhabib, J., Bisin, A., 2018. Skewed Wealth Distributions: Theory and Empirics. Journal of Economic Literature 56, 1261–1291. URL: <http://www.aeaweb.org/articles?id=10.1257/jel.20161390>, doi:10.1257/jel.20161390.
- Benhabib, J., Bisin, A., Luo, M., 2019. Wealth Distribution and Social Mobility in the US: A Quantitative Approach. American Economic Review 109, 1623–1647. URL: <http://www.aeaweb.org/articles?id=10.1257/aer.20151684>, doi:10.1257/aer.20151684.

- Bhattacharya, D., Guner, N., Ventura, G., 2013. Distortions, endogenous managerial skills and productivity differences. *Review of Economic Dynamics* 16, 11–25. URL: <http://www.sciencedirect.com/science/article/pii/S1094202512000592>, doi:10.1016/j.red.2012.10.001.
- Bivens, J., Mishel, L., 2013. The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes. *The Journal of Economic Perspectives* 27, 57–77. URL: <http://www.jstor.org/stable/41955545>. publisher: American Economic Association.
- Brüggemann, B., 2017. Higher taxes at the top: The role of entrepreneurs .
- Cagetti, M., De Nardi, M., 2009. Estate taxation, entrepreneurship, and wealth. *The American Economic Review* 99, 85–111. doi:10.1257/aer.99.1.85.
- Cagetti, M., Nardi, M.D., 2006. Entrepreneurship, frictions, and wealth. *Journal of Political Economy* 114, 835–870. URL: <http://www.jstor.org/stable/10.1086/508032>, doi:10.1086/508032.
- Castaneda, A., Diaz-Gimenez, J., Rios-Rull, J.V., 2003. Accounting for the US earnings and wealth inequality. *Journal of political economy* 111, 818–857. URL: <https://www.jstor.org/stable/10.1086/375382>.
- De Nardi, M., Fella, G., 2017. Saving and wealth inequality. *Review of Economic Dynamics* 26, 280–300. URL: <http://www.sciencedirect.com/science/article/pii/S1094202517300546>, doi:10.1016/j.red.2017.06.002.
- De Nardi, M., Fella, G., Pardo, G.P., 2018. Nonlinear Household Earnings Dynamics, Self-insurance, and Welfare. Technical Report w24326. National Bureau of Economic Research. Cambridge, MA. URL: <http://www.nber.org/papers/w24326.pdf>, doi:10.3386/w24326.
- Diamond, P.A., Saez, E., 2011. The Case for a Progressive Tax: From Basic Research to Policy Recommendations. *Journal of Economic Perspectives* URL: <https://www.jstor.org/stable/41337235>.
- Erosa, A., Fuster, L., Kambourov, G., 2012. Labor supply and government programs: A cross-country analysis. *Journal of Monetary Economics* 59, 84–107. URL: <http://www.sciencedirect.com/science/article/pii/S030439321100105X>, doi:10.1016/j.jmoneco.2011.10.006.
- Fagereng, A., Guiso, L., Malacrino, D., Pistaferri, L., 2016. Heterogeneity in Returns to Wealth and the Measurement of Wealth Inequality. *American Economic Review* 106, 651–655. URL: <https://www.aeaweb.org/articles?id=10.1257/aer.p20161022>, doi:10.1257/aer.p20161022.
- Gabaix, X., Landier, A., 2008. Why has CEO Pay Increased So Much? *The Quarterly Journal of Economics* 123, 49–100. URL: <https://academic.oup.com/qje/article/123/1/49/1889842>, doi:10.1162/qjec.2008.123.1.49. publisher: Oxford Academic.
- Gabaix, X., Lasry, J.M., Lions, P.L., Moll, B., 2016. The Dynamics of Inequality. *Econometrica* 84, 2071–2111. URL: <https://onlinelibrary.wiley.com/doi/abs/10.3982/ECTA13569>, doi:10.3982/ECTA13569.

- Goldin, C., Katz, L.F., 2008. *The Race between Education and Technology*. Harvard University Press.
- Gomez, M., 2020. Decomposing the Rise in Top Wealth Shares. <https://www.matthieugomez.com/files/topshares.pdf>.
- Guner, N., Lopez-Daneri, M., Ventura, G., 2016. Heterogeneity and government revenues: Higher taxes at the top? *Journal of Monetary Economics* 80, 69–85. URL: <https://doi.org/10.1016/j.jmoneco.2016.05.002>.
- Guner, N., Parkhomenko, A., Ventura, G., 2018. Managers and productivity differences. *Review of Economic Dynamics* 29, 256–282. URL: <http://www.sciencedirect.com/science/article/pii/S1094202518300073>, doi:10.1016/j.red.2018.01.004.
- Guvenen, F., 2007. Learning your earning: Are labor income shocks really very persistent? *The American Economic Review* 97, pp. 687–712. URL: <http://www.jstor.org/stable/30035017>.
- Guvenen, F., Kaplan, G., 2017. Top Income Inequality in the 21st Century: Some Cautionary Notes. Working Paper 23321. National Bureau of Economic Research. URL: <http://www.nber.org/papers/w23321>, doi:10.3386/w23321.
- Guvenen, F., Kuruscu, B., 2010. A quantitative analysis of the evolution of the us wage distribution: 1970–2000. *NBER Macroeconomics Annual* 24, 227–276. URL: <https://www.jstor.org/stable/10.1086/648297>.
- Guvenen, F., Kuruscu, B., Ozkan, S., 2013. Taxation of human capital and wage inequality: A cross-country analysis. *The Review of Economic Studies*, rdt042 URL: <https://www.jstor.org/stable/43551581>, doi:10.1093/restud/rdt042.
- Guvenen, F., Kuruscu, B., Tanaka, S., Wiczer, D., 2020. Multidimensional Skill Mismatch. *American Economic Journal: Macroeconomics* 12, 210–244. URL: <http://www.aeaweb.org/articles?id=10.1257/mac.20160241>, doi:10.1257/mac.20160241.
- Herrington, C.M., 2015. Public education financing, earnings inequality, and intergenerational mobility. *Review of Economic Dynamics* 18, 822–842. URL: <http://www.sciencedirect.com/science/article/pii/S1094202515000526>, doi:10.1016/j.red.2015.07.006.
- Hintermaier, T., Koeniger, W., 2011. On the evolution of the US consumer wealth distribution. *Review of Economic Dynamics* 14, 317–338. URL: <http://www.sciencedirect.com/science/article/pii/S1094202510000542>, doi:10.1016/j.red.2010.10.003.
- Hoffmann, F., Lee, D.S., Lemieux, T., 2020. Growing Income Inequality in the United States and Other Advanced Economies. *Journal of Economic Perspectives* 34, 52–78. URL: <http://www.aeaweb.org/articles?id=10.1257/jep.34.4.52>, doi:10.1257/jep.34.4.52.
- Hubmer, J., 2018. The job ladder and its implications for earnings risk. *Review of Economic Dynamics* 29, 172–194. URL: <http://www.sciencedirect.com/science/article/pii/S1094202518300061>, doi:10.1016/j.red.2018.01.003.
- Hubmer, J., Krusell, P., Smith Jr, A.A., 2020. Sources of US wealth inequality: Past, present, and future, in: *NBER macroeconomics annual 2020*, volume 35. University of Chicago Press. URL: <https://www.nber.org/system/files/chapters/c14486/c14486.pdf>.

- Huggett, M., 1996. Wealth distribution in life-cycle economies. *Journal of Monetary Economics* 38, 469–494. doi:[10.1016/S0304-3932\(96\)01291-3](https://doi.org/10.1016/S0304-3932(96)01291-3).
- Huggett, M., Ventura, G., Yaron, A., 2011. Sources of lifetime inequality. *American Economic Review* 101, 2923–54. URL: <https://www.jstor.org/stable/41408726>.
- Imrohorglu, A., Kumru, C.S., Nakornthab, A., 2018. Revisiting Tax on Top Income. Technical Report 2018-660. Australian National University, College of Business and Economics, School of Economics. URL: <https://ideas.repec.org/p/acb/cbeeco/2018-660.html>. publication Title: ANU Working Papers in Economics and Econometrics.
- Jaimovich, N., Rebelo, S., 2017. Nonlinear Effects of Taxation on Growth. *Journal of Political Economy* 125, 265–291. URL: <https://www.journals.uchicago.edu/doi/abs/10.1086/689607>, doi:[10.1086/689607](https://doi.org/10.1086/689607).
- Jones, C.I., 2019. Taxing Top Incomes in a World of Ideas. Working Paper 25725. National Bureau of Economic Research. URL: <http://www.nber.org/papers/w25725>, doi:[10.3386/w25725](https://doi.org/10.3386/w25725).
- Kaplan, S.N., Rauh, J., 2013. It’s the Market: The Broad-Based Rise in the Return to Top Talent. *The Journal of Economic Perspectives* 27, 35–55. URL: <http://www.jstor.org/stable/41955544>. publisher: American Economic Association.
- Katz, L.F., Murphy, K.M., 1992. Changes in relative wages, 1963-1987: Supply and demand factors. *The Quarterly Journal of Economics* 107, 35–78. URL: <http://www.jstor.org/stable/2118323>.
- Kaymak, B., Poschke, M., 2015. The evolution of wealth inequality over half a century: The role of taxes, transfers and technology. *Journal of Monetary Economics* URL: <http://www.sciencedirect.com/science/article/pii/S0304393215001233>, doi:[10.1016/j.jmoneco.2015.10.004](https://doi.org/10.1016/j.jmoneco.2015.10.004).
- Krueger, D., Kindermann, F., 2020. High marginal tax rates on the top 1%?
- Krueger, D., Ludwig, A., 2016. On the optimal provision of social insurance: Progressive taxation versus education subsidies in general equilibrium. *Journal of Monetary Economics* 77, 72–98. URL: <http://www.sciencedirect.com/science/article/pii/S0304393216000064>, doi:[10.1016/j.jmoneco.2015.11.002](https://doi.org/10.1016/j.jmoneco.2015.11.002).
- Kuhn, M., Schularick, M., Steins, U.I., 2020. Income and Wealth Inequality in America, 1949–2016. *Journal of Political Economy* 128, 3469–3519. URL: <http://www.journals.uchicago.edu/doi/full/10.1086/708815>, doi:[10.1086/708815](https://doi.org/10.1086/708815). publisher: The University of Chicago Press.
- Lagakos, D., Moll, B., Porzio, T., Qian, N., Schoellman, T., 2018. Life Cycle Wage Growth across Countries. *Journal of Political Economy* 126, 797–849. URL: <https://www-journals-uchicago-edu.libproxy.lib.unc.edu/doi/10.1086/696225>, doi:[10.1086/696225](https://doi.org/10.1086/696225).
- Laun, T., Wallenius, J., 2016. Social insurance and retirement: A cross-country perspective. *Review of Economic Dynamics* 22, 72–92. URL: <http://www.sciencedirect.com/science/article/pii/S1094202516300163>, doi:[10.1016/j.red.2016.06.004](https://doi.org/10.1016/j.red.2016.06.004).



- Lee, S.Y.T., Seshadri, A., 2018. On the Intergenerational Transmission of Economic Status. *Journal of Political Economy* 127, 855–921. URL: <http://www.journals.uchicago.edu/doi/full/10.1086/700765>, doi:10.1086/700765. publisher: The University of Chicago Press.
- Mankiw, N.G., 2013. Defending the One Percent. *The Journal of Economic Perspectives* 27, 21–34. doi:10.1257/jep.27.3.21.
- Ocampo, I.P., Yuki, K., 2006. Savings, intergenerational transfers, and the distribution of wealth. *Macroeconomic Dynamics* 10, 371–414. URL: [http://journals.cambridge.org/article\\_S1365100506050206](http://journals.cambridge.org/article_S1365100506050206).
- Piketty, T., Saez, E., 2014. Inequality in the long run. *Science* 344, 838–843. URL: <https://www.jstor.org/stable/24743922>.
- Piketty, T., Saez, E., Stantcheva, S., 2014. Optimal taxation of top labor incomes: A tale of three elasticities. *American economic journal: economic policy* 6, 230–271.
- Silos, P., Smith, E., 2015. Human capital portfolios. *Review of Economic Dynamics* 18, 635–652. URL: <http://www.sciencedirect.com/science/article/pii/S1094202514000507>, doi:10.1016/j.red.2014.09.001.
- Song, J., Price, D.J., Guvenen, F., Bloom, N., von Wachter, T., 2019. Firming Up Inequality. *The Quarterly Journal of Economics* 134, 1–50. URL: <https://academic.oup.com/qje/article/134/1/1/5144785>, doi:10.1093/qje/qjy025.