

# UNEQUAL BUSINESS CYCLES

Marcos Sonnervig\*

November 2, 2022

JOB MARKET PAPER

[Click here for most recent version](#)

## Abstract

Standard incomplete-markets (SIM) models predict that the consumption of low-skilled households is more cyclical relative to the consumption of high-skilled because they hold fewer liquid assets and experience larger income changes. I use the Consumer Expenditure Survey (CEX) to document that the opposite is true in the data: over the Business Cycles, lower-skilled workers experience smaller consumption changes. I also show that this different consumption cyclicalities is explained by the fact that high-skilled households consume relatively more luxuries. Motivated by these facts, I extend the SIM model to allow for non-homothetic preferences over goods. To discipline the non-homotheticity in preferences, I exploit cross-sectional data from CEX on how the consumption share of luxuries and necessities varies with income. The model reproduces the observation that consumption is more cyclical for high-skilled workers because these workers spend a larger share of their income on luxuries, which are easier to substitute over time. The model also predicts higher welfare costs of recessions for low-skilled workers, despite their lower consumption declines.

---

\*I am especially grateful to Virgiliu Midrigan, Thomas Sargent and Ricardo Lagos for their advice and support throughout this project. I would also like to thank Jarda Borovička, Simon Gilchrist, Katarína Borovičková, Jess Benhabib, Danial Lashkari, Camilo Morales-Jimenez, Mark Gertler, Venky Venkateswaran, Diego Perez, Aditya Aladangady, Corina Boar, Bálint Szőke, Lars Ljungqvist, Seb Graves, Will Gamber, Guido Menzio, Rafa Guntin, Isabel Cairó, Tomaz Cajner, Jake Orchard, Nils Gornemann as well as participants at the NYU Macro Lunch and the Federal Reserve Board for their insightful comments.

Email: [marcos.sonnervig@nyu.edu](mailto:marcos.sonnervig@nyu.edu)