

UNEQUAL BUSINESS CYCLES

Marcos Sonnervig *

November 2, 2022

JOB MARKET PAPER

[Click here for most recent version](#)

Abstract

I document that low-skilled workers exhibit lower consumption cyclicalities than high-skilled workers, despite holding fewer liquid assets and facing more cyclical income. Standard incomplete-markets (SIM) models are inconsistent with this evidence as they predict a more cyclical consumption process for low-skilled workers. This paper extends the SIM model to allow for non-homothetic preferences, estimated using 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 predicts higher welfare costs of recessions for lower-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, Mark Gertler, Jess Benhabib, Katarína Borovičková, Danial Lashkari, Camilo Morales-Jimenez, Aditya Aladangady, Venky Venkateswaran, Diego Perez, Corina Boar, Lars Ljungqvist, Guido Menzio, Bálint Szőke as well as participants at the NYU Macro lunch and the Federal Reserve Board for their insightful comments.

Email: marcos.sonnervig@nyu.edu