

Modeling Income and Wealth Inequality

Pascal Michailat
<https://pascalmichailat.org/c2/>

Heterogeneous - Agent Modeling (HAM) model:

- heterogeneous wealth: each household i starts with endowment of money μ_i

→ captures wealth inequality

$$\rightarrow \sum_i \mu_i = \mu$$

- heterogeneous capacity each household i provides k_i services to market

→ captures inequality in capital holdings, in human capital, in social capital, and heterogeneity in taste for work / leisure

$$\rightarrow \sum_i k_i = k$$

→ generates income inequality