

The Elasticity of Intertemporal Substitution and the Wealth Inequality in a Global Economy

Kazuo Mino¹ (Kyoto University)

Yasuhiro Nakamoto² (Kansai University)

Abstract

This paper examines the role of preferences for the distribution of wealth in a global economy. In the dynamic Heckscher-Ohlin model, we firstly find that the steady-state equilibrium is uniquely determined regardless of the homothetic and non-homothetic utility function. Secondly, we show that the distribution of wealth in world economy shrinks or expand. In particular, in the case of homothetic utility function, the dispersion of wealth shrinks (expands) if the speed of convergence is fast (or, slow). Alternatively, in the case of non-homothetic utility function, this result may not be held. Thirdly, when the identical utility function is homothetic, the characterization of wealth inequality in domestic economy is qualitatively the same with that in world economy. Alternatively, if the utility function is non-homothetic, this result may not be held.

Keywords: Homothetic and non-homothetic utility function; Wealth distribution; Two countries

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¹ Kazuo Mino: Institute of Economic Research, Kyoto University, Yoshida Honmachi, Sakyo-ku, Kyoto, 606-8501 Japan, e-mail: mino@kier.kyoto-u.ac.jp

² Faculty of Informatics, Kansai University, 2-1-1 Reizanji-cho, Takatsuki-shi, Osaka, 569-1095, Japan, e-mail: nakamoto@kansai-u.ac.jp