

Non-homothetic Utility Function and the Wealth Inequality in a Global Economy*

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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 expands. In particular, in the case of the homothetic utility function, when two countries have an initially same capital, the equal economy continues over time. Alternatively, in the case of the non-homothetic utility function, this result may not be held. Finally, our numerical examples show various patterns of wealth distribution.

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

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