

GROWTH AND INEQUALITY: MODEL EVALUATION BASED ON AN ESTIMATION-CALIBRATION STRATEGY

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This paper evaluates two well-known models of growth with inequality that have explicit micro underpinnings related to household choice. With incomplete markets or transactions costs, wealth can constrain investment in business and the choice of occupation and also constrain the timing of entry into the formal financial sector. Using the Thai Socio-Economic Survey (SES), we estimate the distribution of wealth and the key parameters that best fit cross-sectional data on household choices and wealth. We then simulate the model economies for two decades at the estimated initial wealth distribution and analyze whether the model economies at those micro-fit parameter estimates can explain the observed macro and sectoral aspects of income growth and inequality change. Both models capture important features of Thai reality. Anomalies and comparisons across the two distinct models yield specific suggestions for improved research on the micro foundations of growth and inequality.

Keywords: Growth and Inequality, Wealth-Constraints, Self-Selection, Occupational Choice, Financial Deepening