Session Information submitted to KAEA on

KAEA-AEA Macro-Session at the 2018 ASSA Meetings

Yoosoon Chang, 4 June 2017

- Session title: **Heterogeneous Agents in Macroeconomics**
- JEL codes: D13, D31, E22, E24, J6, O4

➢ The requested information in the following categories are provided together below.

- Manuscript titles, abstracts, author information (names, affiliations, email addresses, discussant and session chair information (names, affiliations, email addresses)

1. Presenter: Mark Huggett (https://faculty.georgetown.edu/mh5/), Georgetown University; email: mh5@georgetown.edu
   Title of paper: "Taxing Top Earners: A Human Capital Perspective," with Alejandro Badel (BLS; ale.badel@gmail.com) and Wenlan Luo (Tsinghua University; luowl@sem.tsinghua.edu.cn)

   Abstract: An established view is that the revenue maximizing top tax rate for the US is approximately 73 percent. We argue that theory and evidence suggest a lower value. First, theory provides a robust formula where three elasticities determine this top rate. Second, theory and measurement suggest that the two new elasticities in the formula are positive and reduce the revenue maximizing rate. Third, a human capital model is provided that follows the logic of the formula, is consistent with regression evidence on the response of income and tax revenue to changes in the top tax rate and yet features a revenue maximizing top rate well below 73 percent.
   Summary: This paper studies the consequences of increasing the marginal tax rate on U.S. top earners and shows that the endogenous fall in skill investment in response to the higher top tax rate is quantitatively very important in calculating the revenue maximizing top tax rate for the US.
   Discussant: Hye Mi You, Hanyang University; email: hyemiyou@hanyang.ac.kr

2. Presenter: José-Víctor Ríos-Rull (http://www.sas.upenn.edu/~vr0j/), University of Pennsylvania; email: vr0j@upenn.edu
   Title of paper: "Financial Frictions, Asset Prices, and the Great Recession," with Zhen Huo (Yale University; email: zhen.huo@yale.edu)

   Abstract: We study financial shocks to households' ability to borrow in an economy that quantitatively replicates U.S. earnings, financial, and housing wealth distributions and the main macro aggregates. Such shocks generate large recessions via the negative wealth effect associated with the large drop in house prices triggered by the reduced access to credit of a large number of households. The model incorporates additional margins that are crucial for a large recession to occur: that it is difficult to reallocate production from consumption to investment or net exports, and that the reductions in consumption contribute to reductions in measured TFP.
   Summary: This paper studies the role of the reduced access to credit of households in generating a large recession, through a drop in house prices and negative wealth effects.

Discussant: Soojin Kim, Purdue University; email: soojink@purdue.edu

3. Presenter: Rasmus Lentz (https://hceconomics.uchicago.edu/people/rasmus-lentz); University of Wisconsin – Madison; email: raslentz@gmail.com

Title of paper: "On Worker and Firm Heterogeneity in Wages and Employment Mobility: Evidence from Danish Register Data," with Suphanit Piyapromdee (University College London; email: s.piyapromdee@ucl.ac.uk) and Jean-Marc Robin (Institut d'Etudes Politiques de Paris; email: jeanmarc.robin@sciencespo.fr)

Abstract: In this paper, we propose an estimation method that allows for unrestricted interactions between worker and firm unobserved characteristics in both wages and the mobility patterns. Related to Bonhomme, Lamadon and Manresa (2014) (BLM), our method identifies double sided unobserved heterogeneity through an application of the EM-algorithm where the firm classification is repeatedly updated so as to improve on the likelihood function. In Monte Carlo simulations, we demonstrate that the cyclic updating of the firm classification provides a significant performance improvement. Firm classification is a result of both wage and mobility patterns in the data. We estimate the model on Danish matched employer-employee data for the period 1985-2011. The estimation includes gender, education, age and time controls. We find an increased sorting pattern over time, although overall sorting is modest. The wage gap between genders is decreasing over time. The contribution to the wage gap from mobility differences between the genders is also decreasing over time.

Summary: The authors develop an estimation method to identify double sided unobserved heterogeneity with updates, and apply it on Danish matched employer-employee data to study the evolution of labor market allocation through wage and job mobility patterns.

Discussant: Serena Rhee, University of Hawaii at Manoa; email: rhees@hawaii.edu

4. Presenter: Hwagyun Hagen Kim, Texas A&M University; email: hkim@mays.tamu.edu

Title of paper: "Identifying and Estimating the Longrun Effect of Income Distribution on Aggregate Consumption," with Yoosoon Chang (Indiana University; email: yoosoon@indiana.edu), Changsik Kim (Sungkyunkwan University; email: skimcs@skku.edu), and Joon Park (Indiana University and Sungkyunkwan University; email: joon@indiana.edu)

Abstract: This paper identifies and estimates the longrun effect of income distribution on aggregate consumption, using income and expenditure data from the US Consumer Expenditure Survey. The permanent and transitory components of income and consumption distributions are obtained by the functional Beveridge-Nelson decomposition. The permanent income distribution consists of two stochastic trends, from which we identify two factors, the level and spread factors, determining the permanent consumption. The level and spread factors change the permanent consumption through the changes in aggregate income and in redistribution of income, respectively.

Summary: This paper introduces the concept of cointegration between nonstationary time series of cross-sectional distributions, and uses it to study identification and estimation of the longrun effects of income distribution on aggregate consumption and its policy implications

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