

Revised Session Information submitted to KAEA on
KAEA Workshop at the 2018 ASSA Meetings
Yoosoon Chang, 13 December 2017

- Session title: **Topics in Macroeconomics with Heterogeneous Agents**
- JEL codes: D31, E6, G12, I18

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

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

1. Presenter: Hye Mi You, Hanyang University; email: hyemiyou@hanyang.ac.kr
Title of paper: “Rising Earnings Risk and Wealth Distribution with Housing,” coauthored with Byoung Hoon Seok (Ewha Woman's University, email: bhseok@ewha.ac.kr) and Lini Zhang (Central University of Finance and Economics, email: zhang.827@osu.edu)

Abstract: This paper studies changing wealth compositions in response to rising earnings risk, with a focus on the role of housing assets, in the U.S. between 1983 and 1995. Using the data from the Survey of Consumer Finances (SCF), we document that housing inequality changed little with a stable aggregate homeownership rate for the period. However, among poorer households, both homeownership rates and housing to wealth ratio increased significantly for the period. In order to explain these changes, we build a general equilibrium incomplete-markets model, where households subject to idiosyncratic earnings risk make portfolio choice between housing and a financial asset. As earnings risk rises, households tend to substitute illiquid housing towards liquid financial assets. However, declines in down-payment requirements or housing transaction costs may dampen the effect. The model also has welfare implications: increasing housing wealth and home ownership rates for poorer households improves aggregate welfare, but the reduction of welfare due to rising earnings risk dominates this effect.

2. Presenter: Soojin Kim, Purdue University; email: soojink@purdue.edu
Title of paper: “Social Insurance Program Design for the Disabled in an Equilibrium Model,” with Naoki Aizawa (University of Wisconsin-Madison and University of Minnesota, email: naizawa@wisc.edu), and Serena Rhee (University of Hawaii at Manoa and RAND, email: rhees@hawaii.edu)

Abstract: Many countries implement both public disability insurance program (e.g., Social Security Disability Insurance) and employment protection policies (e.g., Americans with Disabilities Act) for disabled workers. We investigate the optimal combination of disability insurance and employment protection, accounting for both the worker- and firm-side responses to the policies. We first provide empirical evidence that firm’s provisions of accommodations to the disabled are responsive to firm subsidies. Then, we develop a labor market model where firms post contracts with wage and accommodation; and workers with different levels of disability make labor supply decisions. We estimate the model using the Health and Retirement Survey data, and identify the key parameters

exploiting the policy variations for the disabled. Using the estimated model, we quantify the policy impacts on the workers' incentives and the firms' employment contract design. Then, we characterize the optimal mix of the two policy interventions and study their implications on equilibrium labor market outcomes for workers of different health statuses.

3. Presenter: Serena Rhee, University of Hawaii at Manoa and RAND,
email: rhees@hawaii.edu
Title of paper: "Disability Insurance: A Safety Net for the Unhealthy and Its Consequences on the Healthy," with Soojin Kim (Purdue University, email: soojink@purdue.edu)
Abstract: We study the implication of Disability Insurance (DI) in the context of the aging population. The DI program encourages disabled mid-aged workers to leave the labor markets, shifting the relative demographic composition of the labor force. As different age groups serve as imperfect substitutes to each other, the early retirement of mid-aged workers influences the labor force participation of the young as well. We quantify the aggregate implication of these compositional changes and find that the DI program reduces the labor force participation of both young (1.4%) and old workers (3%), which results in a loss of output approximately two times larger than the estimate based on partial equilibrium analysis.
- Chair information: Yoosoon Chang, Indiana University, email: yoosoon@indiana.edu