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Labor Persistency, Wealth Distribution and Durable Goods
-The Effect on the Welfare Cost of the Business Cycle-

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[Abstract]

Storesletten et. al. (2001) suggest that the effect of labor income persistency in a heterogeneous agent model on the welfare costs of the business cycle is relatively large. Also Neng Wang (2008) suggests that labor income persistency plays the key role for deciding the distribution of wealth. In this paper, using a heterogeneous agent model with labor persistency, we examine the effects of durable goods on the welfare cost of the business cycle. The durable goods stock is a part of total wealth and a kind of insurance, then in our model durable goods stock should be replicated based on the wealth distribution. In contrast to Obstfeld (1994), our measure of durable goods is based on stocks not flows. For the stock, the volatility of durable goods is not as large as that for the flow. Our calculation shows that durable goods are not important in terms of the welfare costs of business cycle, and that the welfare cost of the business cycle does not become large under the labor persistence model. This conclusion is similar to that of Obstfeld (1994), Krusell and Smith(1999). Persistency of income balances the credit market and does not raise the welfare cost of the business cycle.

Key words; Business cycle, Consumption stock, Depreciation rate, Durable goods, Incomplete market, Heterogeneous agents, Wealth distribution, Welfare

JEL classification; E20, E27, E32

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