
Asset Price Volatility, Wealth Distribution and Spirit of Capitalism: The Role of Heterogeneity

Lise Clain-Chamosset-Yvrard*¹

¹Théorie économique, modélisation et applications (THEMA) – CNRS : UMR8184, Université de Cergy
Pontoise – 33, boulevard du Port 95011 Cergy-Pontoise Cedex, France

Abstract

We are interested in the role of investors' heterogeneity on asset price volatility in a spirit-of-capitalism model. Our paper extends the asset pricing model developed by Lucas (1978) by introducing preferences for wealth and heterogeneity in preferences, income and initial wealth. Our model provides an explanation for a non-degenerate stationary wealth distribution and the occurrence of asset price fluctuations, driven by the volatility of agents' expectations. Investigating the role of heterogeneity, we show that heterogeneity in preferences, but also in income, can heighten social inequalities in the long run, and asset price volatility in the short run by promoting local indeterminacy.

Keywords: theory

*Speaker