Status, the distribution of wealth and endogenous economic growth

Abstract: Based on a stochastic dynamic general equilibrium model with heterogeneous households, this paper analyzes the effects of positional preferences on the interaction between the distribution of wealth and endogenous economic growth. Households exhibit positional preferences, i.e., they derive utility not only from their own consumption level, they are also concerned about their wealth-rank, i.e. their wealth relative to the average wealth level. Contrary to adopting ad hoc assumptions regarding the specification of the wealth ranks, we demonstrate that the distribution of wealth ranks necessarily follows a power law. Under this power law, individual wealth growth rates differ, though, the aggregate distribution converges to a stationary distribution in the balanced growth path. Differences in individual growth rates are due to differences in the return to households' assets (e.g., differences in the return to one's human capital -- considered as part of the total capital). Moreover, the endogenous growth rate is shown to strongly depend on the ``power law exponent,'' which is itself an endogenous variable that is determined by the mean and standard deviation of the individual growth rates.