

Regional Income Redistribution and the Risk-sharing Effects under Uncertainty by the Spotty Prosperity: The Case of Japan

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Abstract

This paper proposes the model which depicts differences between national business cycles and regional ones or among regions, so-called regional spotty prosperity. Using the empirical model of Japan, this paper examines regional income redistribution policy and the intranational risk-sharing effects under uncertainty caused by regionally heterogeneous transition of discount factor. Our numerical example indicates that, though depending on regions, regional income redistribution policy under spotty prosperity brings some risk-sharing effects. However, for the income shock of metropolitan area of Japan, i.e., Kanto, consumption of the other regions falls and, as a result, national consumption also does.

Keywords: redistribution, intranational risk-sharing, spotty prosperity, discount factor

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