

Inverted U relationship between inequality and economic performance

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Abstract

This paper shows that median level of inequality stimulates investment although low and high levels of inequality dampen investment in a borrowing constrained economy. This nonlinearity comes from two effects. There are more rich individuals in an equal economy compared to an unequal economy. More individuals can invest. On the other hand, rich individuals has less wealth in an equal economy than those in an unequal economy. This can dampen investment. My paper shows that these two effects produce nonlinearity if investment is indivisible.