Risk aversion heterogeneity, tax policies and inequalities in a continuous time model with heterogenous agents

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Abstract

In a continuous-time model with heterogenous agents based on the Ramsey model, we assume that all the agents have the identical discount rate so that there is a continuum of steady state which depends on initial conditions. In this paper, we propose a tractable way to determine the steady-state levels of individual capital stocks analytically. Furthermore, we examine the qualitative impacts of the tax policies as well as the risk aversion heterogeneity. Finally, we indicate numerical examples to confirm the quantitative impacts on welfare as well as inequality.

Keywords: Heterogenous agents, Ramsey model, Risk aversion heterogeneity, Tax policies, Consumption inequality

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