The Rush to Modernity and the Widening of Inequality

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Abstract

This paper analyzes an economy with intrinsic social inequality in the sense that there are two types of households and one type owns asset, while the other type is unable to own asset. Assuming endogenous time preference with decreasing marginal impatience (DMI), we show that (i) poor households tend to benefit more from positive shocks under DMI than under constant marginal impatience; (ii) reducing the intrinsic social inequality may not be preferable for all households. We also show that under DMI, if both types of households are allowed to own asset but their initial asset holdings differ, the economy will not converge to the steady state with positive assets for all households.