

Persistent Inequality in a Simple Two Sector Model

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Abstract

This paper proposes a theory for the persistence of income inequality using a simple overlapping generations model with two consumption goods and two production sectors. There are two classes of workers, high and low skilled, each with a comparative advantage in a different type of production. Our model has a parameter range in which workers permanently specialize in the production type associated with their respective comparative advantages. This pattern of specialization leads to persistent income inequality between skill classes. The level of income inequality is determined by the structure of demand for the two consumption goods and the relative population size for each skill class.

Keywords: Persistent Income Inequality; Comparative Advantage; Complete
Specialization

JEL Classifications: J24; O15