

Implications of Rising Wage Dispersion when Labour Supply is Indivisible

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January 22, 2009

Abstract

In US over the last three decades, consumption dispersion increased much less markedly than wage dispersion while hours dispersion remained stable. This paper takes the change in wage dispersion as given and uses the incomplete market model of Aiyagari (1994) with indivisible labour supply to explain the movement of consumption and hours dispersion. We find that consumption dispersion increase was relatively small because of self insurance through savings. Dispersion of hours did not change because of indivisibility of labour supply. The model implies a decline in employment rate. The paper provides some evidence of this change.