Heterogeneous Portfolios and the Wealth Distribution (Joint with Jesus Fernandez-Villaverde)

Abstract
We study how heterogeneous portfolio decisions affect the joint distribution of wealth and returns in an asset-pricing model with incomplete markets.
We show that endogenous portfolios determined by heterogeneous risk aversion are able to explain key moments of the wealth and return distribution across US households.
We find that a rise in the price/dividend ratio generates substantial welfare effects through an increase in consumption inequality.
Our model suggests that most of the rise in US top wealth shares can be explained by asset price dynamics.