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Income Distribution in a Dynamic Assignment Model

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Abstract : This study investigates the income distribution in a dynamic assignment model with human capital accumulation and endogenous firm size. Positive assortative matching between bosses and workers arises in labor market equilibrium. We solve the stationary equilibrium of two endogenous functions, the matching rule and human capital distribution; we also decompose two channels affecting the equilibrium matching rule, firm-size effect, and endogenous distribution effect. Finally, we perform a perturbation analysis of the equilibrium matching rule and the wage function and examine the effects of technology improvement on income inequality.

Keywords : income distribution, matching, human-capital accumulation, firm size, perturbation method
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