DISSERTATION PROPOSAL

Nick Hoffman

"Wealth, Entrepreneurship, and Economic Policy"

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The wealth distribution in advanced economies is shaped by heterogeneity in the rates of return that households earn on their portfolios. In the first two chapters of my dissertation, I explore the implications of this fact for fiscal and monetary policy. In the third, I employ a model featuring heterogeneity in household returns to explore the effect of declining population growth on entrepreneurship and wealth inequality.

In the *first chapter*, written jointly with Ali Shourideh, we study the optimal taxation of capital income when individuals earn heterogeneous rates of return. We propose a general framework in which entrepreneurs can choose to invest in both a risk-free asset, and in a private entrepreneurial project with idiosyncratic return. We allow the government to set an arbitrarily nonlinear tax schedule on income from both assets, subject to informational frictions: it cannot observe individuals' rates of return, only their capital income. In solving for the optimal tax code, we also characterize the set of entrepreneurs who the government incentivizes through taxation to invest in their projects.

In the *second chapter*, I study the role of return heterogeneity in transmitting monetary policy to the economy. A growing literature has shown that the transmission of a change in the policy rate to economic aggregates—such as aggregate investment or consumption—depends on the joint distribution of wealth, income, and marginal propensities to consume in the economy. I document that in the data, households who hold wealth in a business respond differently to changes in monetary policy than those who do not. This observation motivates a model in which households have the option to start private businesses, and are subject to idiosyncratic shocks to their entrepreneurial ability. An accommodative shift in monetary policy allows talented entrepreneurs to "leverage up," taking on cheaper debt in order to increase scale. I explore the role of this channel in transmitting the change in monetary policy to economic aggregates. In addition, I study the extent to which the aggregate response to a change in the policy rate depends on its starting level.

In the *third chapter*, I quantify the degree to which the decline in population growth in the United States over the past four decades has contributed to the concurrent increase in wealth inequality. I posit that the decline in population growth is a common driver of three empirical trends: declining interest rates, a declining rate of business formation, and an increase in the share of wealth held by business owners. I begin with the well-known result that a decline in population growth leads to a decline in the real interest rate. I demonstrate that in a model with entrepreneurship and financial frictions, a slowdown in population growth also generates a decline in the rate at which households choose to form businesses. The reduction in the interest rate leads to an increase in the share of wealth held by households who *do* operate businesses: these households take advantage of low borrowing costs to increase their scale, while worker households save less in the face of a decreasing safe return. I quantify the contribution of this channel to the increase in wealth inequality, and explore the effects of counterfactual policies.