

Search and Matching Friction and Status Conscious Job Choice

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Abstract

The present general equilibrium model seeks to find an explicit relationship between inheritance (and hence, the long run wealth distribution) and the unemployment, generated due to search-friction in the labor market. The existence of unemployment in equilibrium is guaranteed even with the presence of a perfect and an imperfect labor market. Reflecting the reality, this model displays that inheritance affects unemployment positively at the micro-level, but at the macro level, there is a negative relationship between GDP and unemployment. The model ensures that a dynasty does not get stagnated in a particular income class. By simulating the model, it has been shown that the long run income distribution is independent of the initial income distribution, which questions the efficacy of the celebrated trap theory.

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