

Earnings, consumption and the business cycle: the role of tradable vs. non-tradable

Full draft available soon

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October 17, 2022

Abstract

This paper explores the heterogeneity in earnings and consumption behaviour for workers employed in tradable and non-tradable sectors. First, I estimate a standard lifecycle model of workers' earnings in the two sectors with a permanent and a transitory component. I show that workers in the non-tradable sector experience shocks that are twice as volatile than their tradable counterpart. Then, I estimate workers marginal propensity to consume using unemployment as an unanticipated shock to earnings and allowing for a rich heterogeneity of MPCs according to demographics and other worker characteristics. Workers in non-tradable industries have an MPC that is 30% higher, and such difference becomes twice as large when considering exclusively workers in a stricter non-tradable classification including only retail and restaurant. I then build a multi-sector, open-economy, general-equilibrium model with heterogeneous agents subject to idiosyncratic income shocks and incomplete financial market. I use the model to study the implications of such heterogeneity on business cycles following sector-specific shocks, as well as on the long-run behaviour of the economy to a globalization shock that increases openness.

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