COST OF LIVING INEQUALITY DURING THE GREAT RECESSION

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Abstract
We construct income-specific price indexes for the period from 2004 to 2016. We find substantial differences across income groups that arise during the Great Recession. The difference in annual inflation between the lowest quartile of the income distribution and the highest quartile was 0.22 percentage points for 2004-2007, 0.85 percentage points for 2008-2013, and 0.02 percentage points for 2014-2016. We find that product quality substitution and changes in the shopping behavior, margins mostly available to richer households, explain around 40% of the gap. Our evidence shows that not accounting for these differences in price indexes could lead to significant biases in the calculation of consumption and income inequality. (JEL: D12, E31, E32, I30)