ENDOGENOUS PARTIAL INSURANCE AND INEQUALITY

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Abstract
In this paper, we propose a model of endogenous partial insurance and we investigate its implications for macroeconomic outcomes, such as wealth inequality, asset accumulation, interest rate, and consumption smoothing. To this end, we include participation costs to state-contingent asset markets into an otherwise standard **?** model. We highlight the resulting non-monotonic relationship between wealth and insurance-market participation when insurance is costly. Poor households remain uninsured, middle-class households participate in the insurance market, while rich households decide to self-insure by only purchasing risk-free assets. After theoretically characterizing the endogenous partial equilibrium, we quantify its effect, emphasizing the roles of a participation channel and an interest rate channel. (JEL: E21, E44)

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