

# Seminar on Economics: Inflation and Income Inequality in an Open Economy

CELEBRATING 40TH ANNIVERSARY OF  
THE UNIVERSITY OF MACAU

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TIME:  
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SCAN FOR  
ZOOM



### Abstract:

This study explores the relationship between inflation and income inequality in an open economy Schumpeterian growth model with heterogeneous households, firm-level innovation, and cash-in-advance constraints on R&D investment. We find that the relationship between domestic inflation and income inequality depends on the global real interest rate. Specifically, income inequality monotonically increases with domestic inflation if the influence of a country's technology growth on the global real interest rate is low, whereas it displays a U-shaped pattern when the influence is sufficiently high. In contrast, foreign inflation always reduces domestic income inequality in the model by lowering domestic economic growth. These predictions are supported by our quantitative model calibrated to the U.S. and Eurozone economies and empirical results using cross-country data.