We present a general equilibrium dynamic model, which focuses on how the heterogeneity in sector productivity affects the macroeconomic equilibrium. In the model, individuals endogenously choose whether to invest in their education and work in the advanced sector or not, and firms endogenously choose in which sector to operate and to invest their capital. The resulting macroeconomic equilibrium exhibits a feedback between investment in education and investment of physical capital in the advanced sector, as one promotes the marginal productivity of the other. This feedback yields several results: (i) the skill premium rises over time; (ii) along the transitional dynamics both TFP and labor productivity increase; (iii) income inequality may increases over time, but may also display a Kuznets curve pattern.

We are looking forward to seeing you at the seminar.

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See the seminar's website:
http://portal.idc.ac.il/en/schools/economics/about/Pages/seminars.aspx