Appendix A

Remark A.1: Log-linearising equation 8 around the zero inflation steady state yields the following output (inflation equation):

$$\pi_t = \beta \mathbb{E}_t(\pi_{t+1}) - \omega \hat{\mu}_t^p$$

Where $\hat{\mu}_t^p \equiv log(\frac{\mathcal{M}_t^p}{\mathcal{M}^p})$ and $\omega \equiv \frac{\epsilon_p}{\xi \mathcal{M}^p}$.

The deviations of the log-price markup from steady state can be written to show the markup-output schedule as:

$$\hat{\mu}_t^p = (1+\psi)a_t - (\sigma+\psi)\hat{y}_t$$

By setting $\hat{\mu}_t^p = 0$ we can solve for the natural level of output, which we denote by $\hat{y}_t^n$ in log-deviations from the steady state:

$$\hat{y}_t^n = (\frac{1+\psi}{\sigma+\psi})a_t \equiv \varphi_a a_t$$

Independently of the number and nature of the shocks affecting y_t^n, it generally holds that $\hat{\mu}_t^p = -(\sigma+\psi)\tilde{y}_t$ Where $\tilde{y}_t = y_t - y_t^n$ is the output gap.

Substituting these into the above we obtain the equation for the New Keynesian Phillips curve:

$$\pi_t = \beta \mathbb{E}_t(\pi_{t+1}) + \kappa \tilde{y}_t$$

With $\kappa \equiv \omega(\sigma+\psi)$.

Remark A.2: The government fiscal policy rests in an endogenous redistribution rule. By applying a rate τ^G to corporate profits, the government rebates the tax proceedings in the form of lump-sum transfers to the *Keynesian* households such that $T_t^K = \frac{\tau^G}{\lambda} D_t$.

Consider the log-linearized budget constraint of the *Keynesian* households:

$$c_t^H = w_t + n_t^H + \frac{\tau^G}{\lambda} d_t$$

Knowing that $d_t = -w_t$ where w_t is the wage schedule such that $w_t = (\varphi + \frac{1}{\sigma})c_t$ with $\varphi \equiv \frac{U_{NN}N}{U_N}$ and $\frac{1}{\sigma} \equiv \frac{U_{CC}C}{C}$, together with the *Keynesian* labor supply, we get:

$$c_t^H = y_t^H = \chi y_t$$

Where $\chi \equiv 1 + \varphi \left(1 - \frac{\tau^G}{\lambda}\right)$.

In the same vein, we consider the income for the *Ricardian* households as follows:

$$y_t^R = w_t + n_t^R + \frac{1 - \tau^G}{1 - \lambda} d_t$$

Replacing $d_t = -w_t$ and the *Ricardian* labor supply, we obtain the following:

$$y_t^R = \frac{1 - \lambda\chi}{1 - \lambda} y_t$$

We then take the ratio of the former with the latter to retrieve the measure $\mathcal{I}$ expressed before.

With $\tau^G = 0$ and $\chi > 1$, if demand and real wage go up, *Keynesian* income increases as it is not hit by falling profits. In this setting, aggregate demand rises more than proportionally due to the *Ricardian*'s decision to work more to offset the profits loss. The counter cyclicality of inequality is soon evident and it is dampened only with $\tau^G > 0$, internalizing the negative income effect for hand-to-mouth agents.

Appendix B

Figure B.1: Impulse Response Functions (IRF) for a 1% monetary contraction

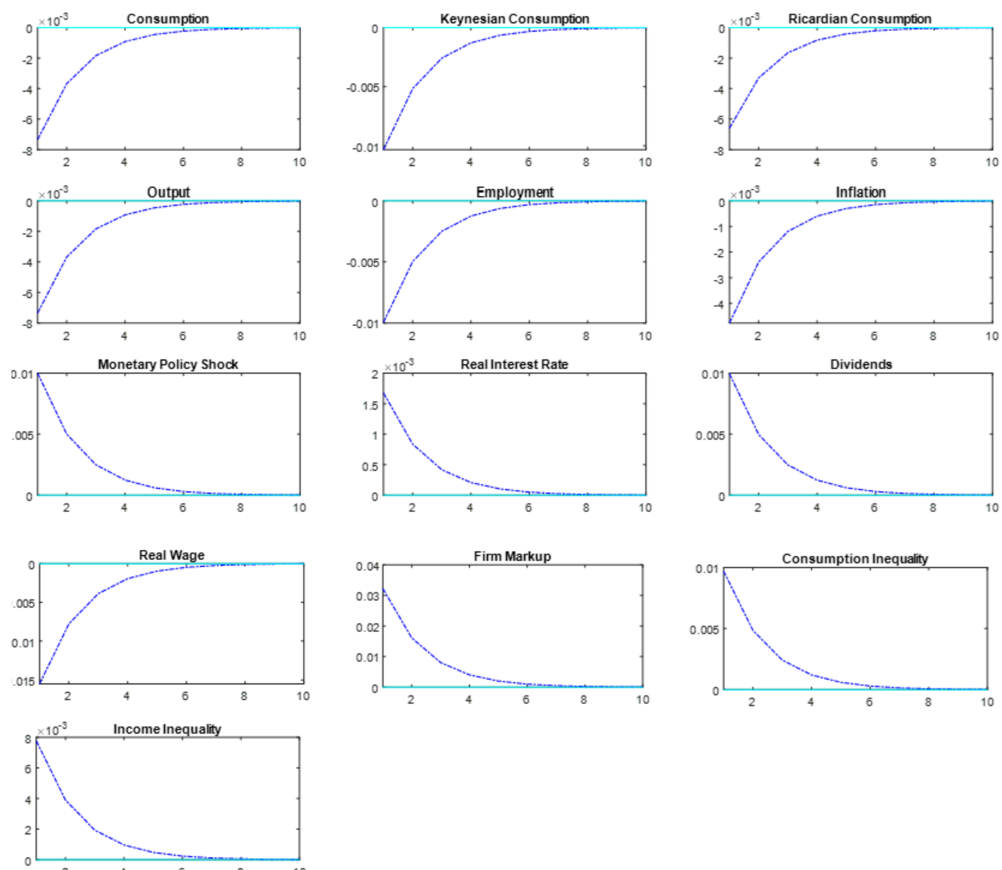
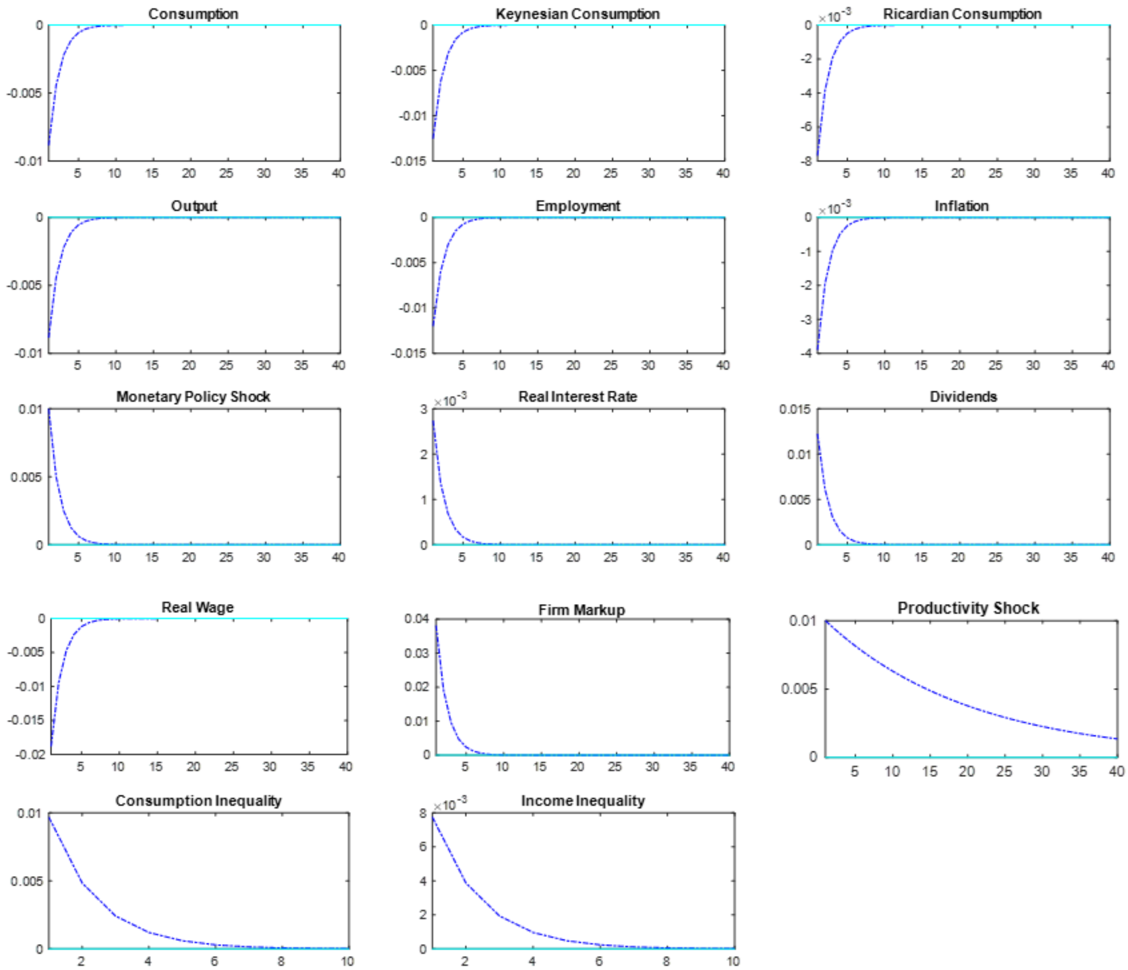


Figure B.2: Impulse Response Functions (IRF) for a 1% positive productivity shock



Appendix C

Figure C.1: Annual interest rate between 1980-2008 (USA)

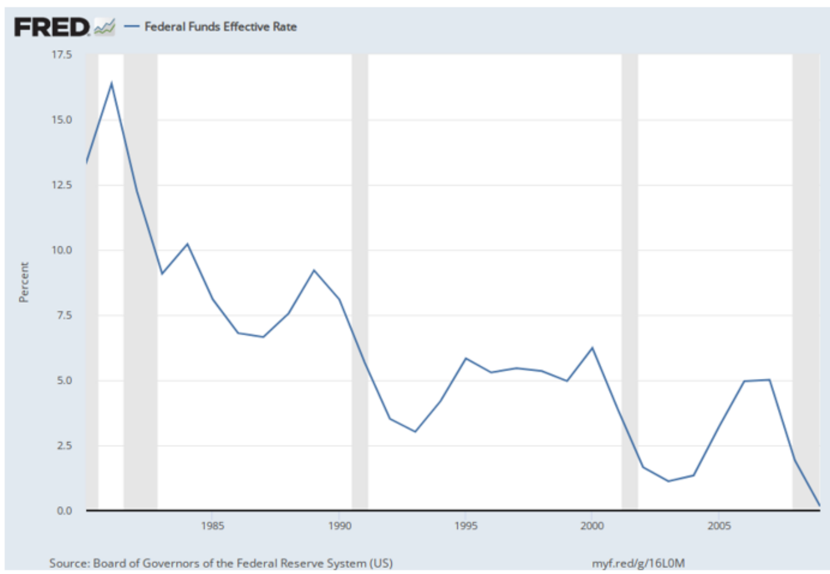


Figure C.2: Ratio between the richest and the poorest 20% (USA)

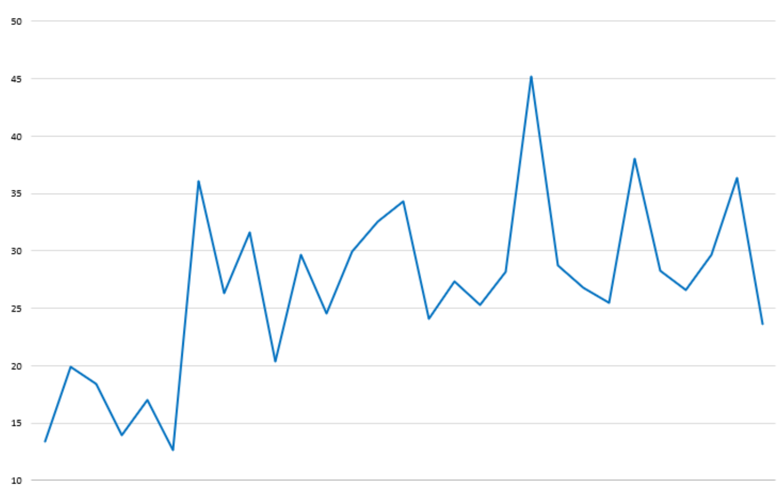


Figure C.3: Average share of income for the top 10% of the population (USA)

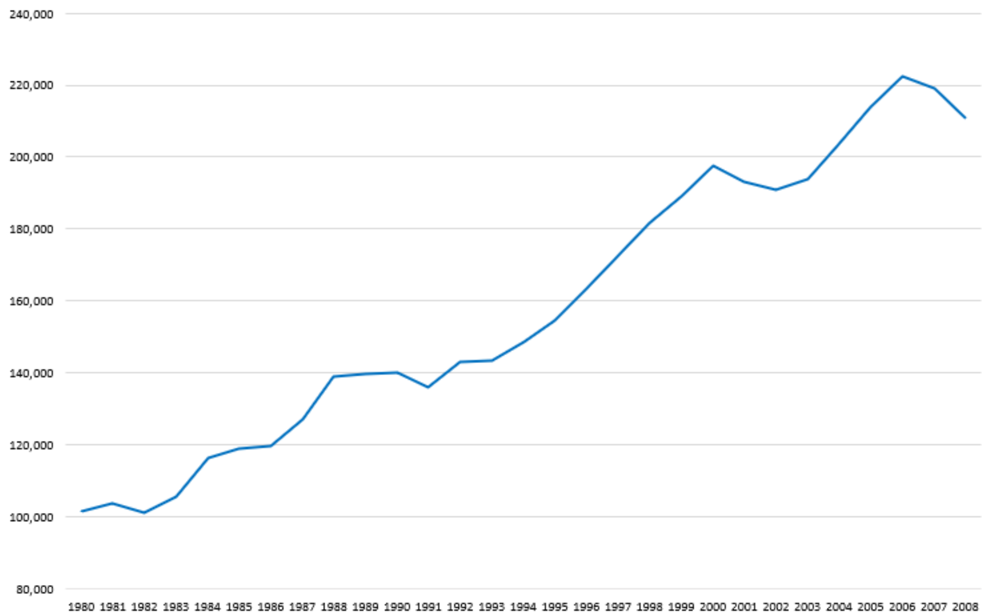


Figure C.4: Average share of income for the top 1% of the population (USA)

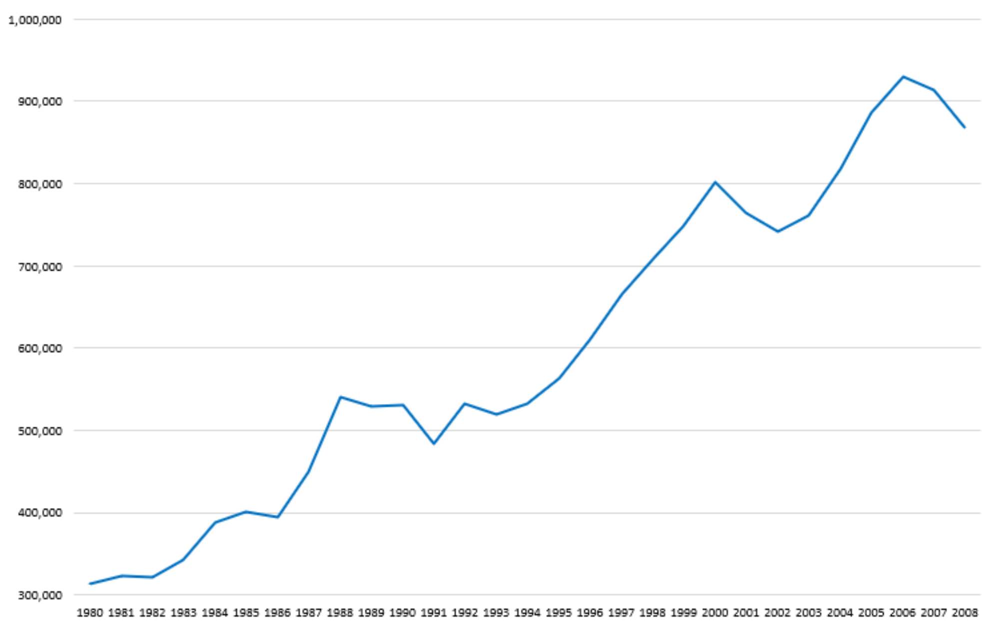


Figure C.5: Income percentile ratios (USA)

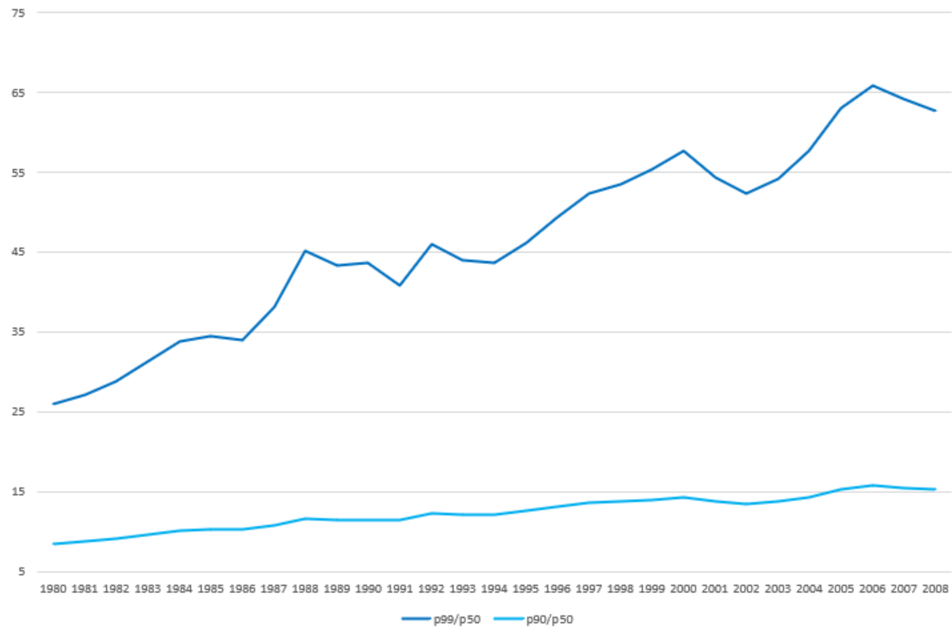


Figure C.6: Annual interest rate between 1980-2008 (Italy)

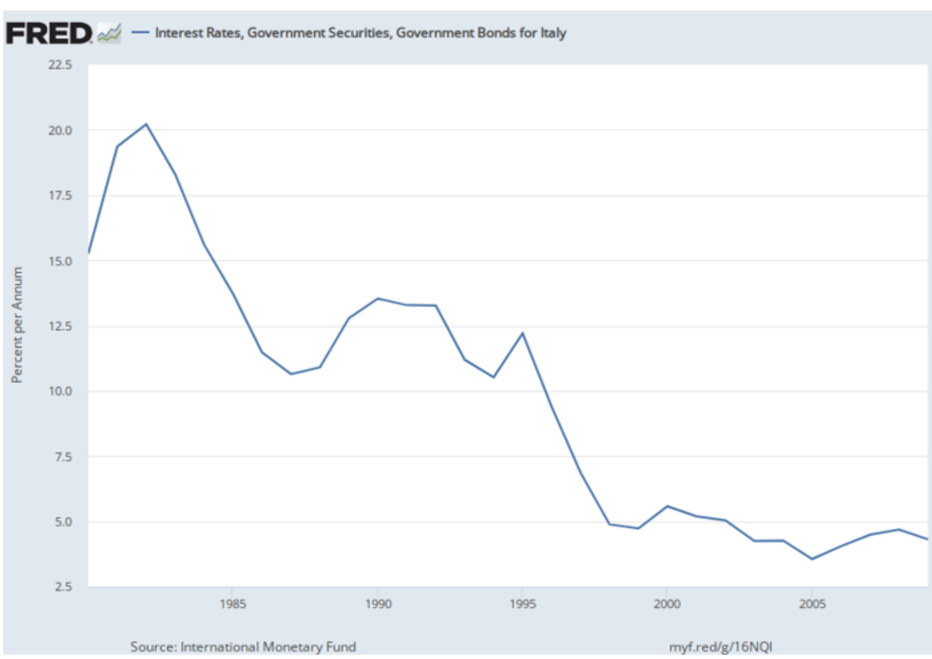


Figure C.7: Ratio between the richest and the poorest 20% (Italy)

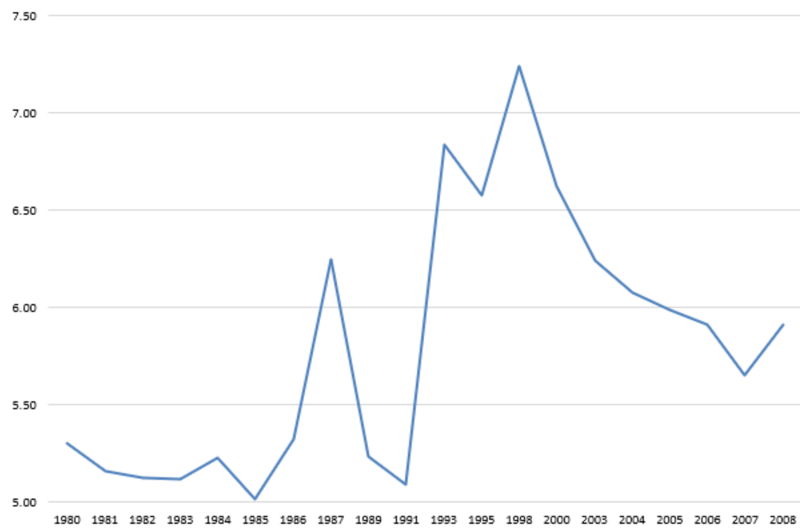


Figure C.8: Average share of income for the top 10% of the population (Italy)

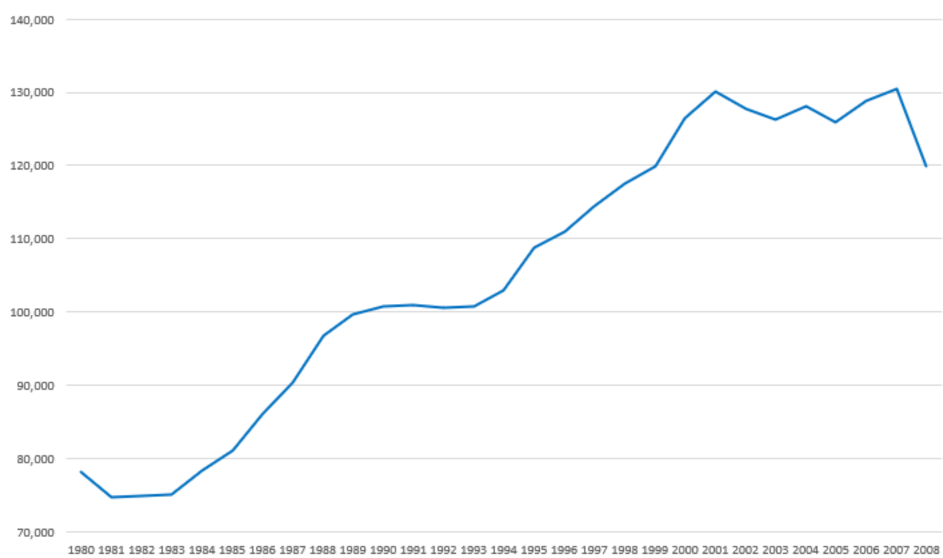


Figure C.9: Average share of income for the top 1% of the population (Italy)

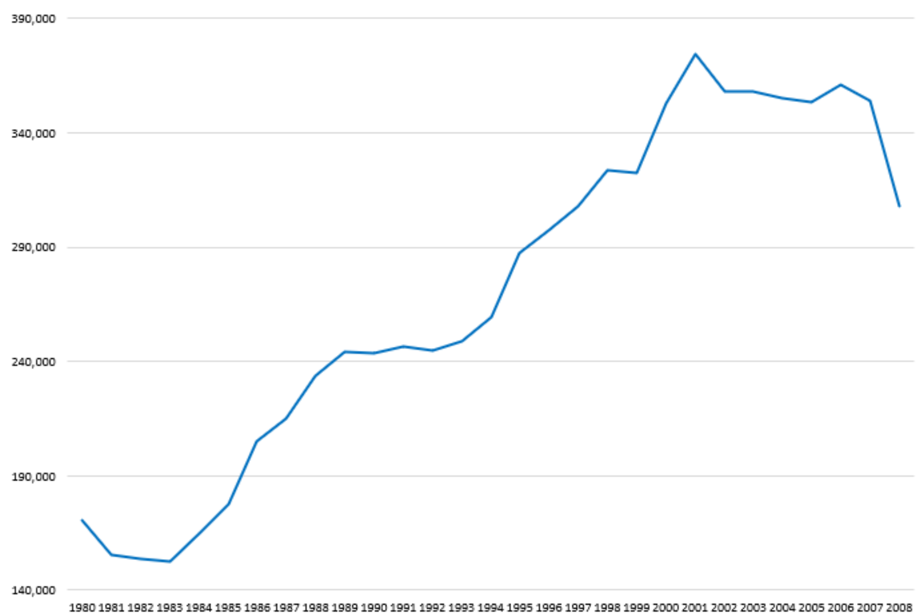


Figure C.10: Income percentile ratios (Italy)