Research Seminar "Quantitative Economics"

Summer Term 2025

Magnus Irie (Princeton University)

Abstract

Innovations in Entrepreneurial Finance and Top Wealth Inequality

(Magnus Irie)

Abstract
How does improved risk sharing for entrepreneurs affect top wealth inequality? On the one hand, better entrepreneurial financing allows entrepreneurial firms to scale up, which tends to raise top wealth inequality. On the other hand, better risk sharing allows entrepreneurs to reduce their idiosyncratic risk exposures. This risk reduction effect tends to lower top wealth inequality by making extreme wealth trajectories for entrepreneurs less likely. In equilibrium, which of these two effects dominates depends on how much economic activity is reallocated to entrepreneurial firms from elsewhere in the economy when entrepreneurs try to scale up. When this reallocation is large, Pareto inequality can increase rapidly as risk sharing improves on the margin.