

# Accepted Manuscript

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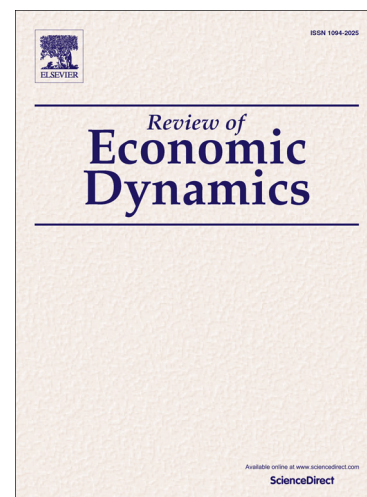
PII: S1094-2025(16)30032-1  
DOI: <http://dx.doi.org/10.1016/j.red.2016.07.005>  
Reference: YREDY 782

To appear in: *Review of Economic Dynamics*

Received date: 11 August 2015  
Revised date: 24 May 2016

Please cite this article in press as: De Giorgi, G., Gambetti, L. Business cycle fluctuations and the distribution of consumption. *Review of Economic Dynamics* (2016), <http://dx.doi.org/10.1016/j.red.2016.07.005>

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# BUSINESS CYCLE FLUCTUATIONS AND THE DISTRIBUTION OF CONSUMPTION

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October 21, 2016

## Abstract

This paper sheds new light on the interactions between business cycles and the consumption distribution. We use CEX consumption data and a factor model to characterize the cyclical dynamics of the consumption distribution. We first ensure that our approach closely matches business cycle fluctuations of consumption from the National Account. We then study the responses of the consumption distribution to TFP shocks and various uncertainty shocks. Importantly, we find that the right tail of the consumption distribution, comprised mostly of highly educated individuals, has a larger and quicker response than other parts of the distribution to shocks that drive cyclical fluctuations. We note that the cost of business cycle fluctuations, calculated using the full distribution of consumption, is larger than the cost found using aggregate consumption. Further, the shocks we analyze reduce consumption inequality on impact.

JEL classification: E21, D12, C3

Keywords: Consumption, Inequality, Cost of business cycles, Heterogeneity, Aggregate Shocks, Structural Factor Model, FAVAR.

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\*We would like to thank Rodica Calmuc, Nicole Dussault, and Michela Giorcelli for very skillful research assistance. The financial support from the Spanish Ministry of Science and Innovation through grant ECO2009-09847 and the Barcelona Graduate School Research Network is gratefully acknowledged. Giacomo De Giorgi acknowledges financial support from the Spanish Ministry of Economy and Competitiveness, through the Severo Ochoa Programme for Centres of Excellence in R&D (SEV-2011-0075) and ECO2011-28822, and the EU through the Marie Curie CIG grant FP7-631510. Giacomo De Giorgi, GSEM-University of Geneva, Unimail, Bld. du Pont-D'Arve 40, 1211 Geneva 4. email: giacomo.degiorgi@gmail.com. Luca Gambetti, Departament d'Economia i Història Econòmica, Edifici B, Universitat Autònoma de Barcelona, Bellaterra 08193, Barcelona, Spain. e-mail: luca.gambetti@uab.cat

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