- **Structural Change and Income Inequality**

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Abstract

In this paper, we aim to quantify the "structural" level of income inequality by uncovering the long-term factors behind the evolution of income distribution during structural change. We develop a structural change model that is populated by heterogeneous agents. These agents differ from each other by their initial asset holdings, preferences for saving and sectoral productivities. In order to study the long-term patterns of labor movements across sectors and the distribution of earnings, we incorporate Roy's selection model into a dynamic framework where income inequality will be endogenously determined. The theoretical model is calibrated for the post-WW II US economy.