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Income Inequality, Equities, Household Debt, and Interest Rates:

Evidence from a Century of Data

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Abstract

Using Philippon's (2014) recently published historical household debt data, this paper uses Diebold and Yilmaz's (2012) generalized variance decompositions and generalized impulse responses to understand the relationship between interest rates, the stock market, household debt, and the distribution of income in the U.S. The results indicate that increases in the stock market and household debt increase income inequality. Moreover, the relationship between the interest rate and income inequality is found to be negative and statistically significant. We interpret our results as suggesting that high income earners derive a larger portion of their income from interest rate sensitive assets.

Key words: Income Inequality, Interest Rates, Household Debt
JEL Codes: D31, E44

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