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Human Capital and Income Concentration
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Abstract
High income concentration and poverty in Brazil have been intensively studied by Paes de Barro, Henriques and Mendonça (2000 a and b). In their words, "...Brazil is not a poor country, but a country with too much poor people...". Their careful research shows clearly that the high poverty is due mainly to the high concentration of income and to the "unequal opportunities for social and economic inclusion". Although international comparisons shows that almost 70% of the countries have a per capita income below Brazil’s, steadily during 1978 to 1998, as much as 10% of the richest families in the country have access to 50% of the aggregate family income whereas 50% of the poorest households have a participation of only 10% over the same aggregate income.

An obvious factor influencing unequal earnings is the heterogeneous level of education among the labor force, for education can be understood as a mean to attain improvements in labor productivity, consequently in family income.

Based on the above arguments, the present study aims to construct a recursive general equilibrium model where a "poverty trap" can be generated. The agents of the model economy are heterogeneous for they differ in the level of education, and according to this differential they face different employment opportunities which evolves according to a stochastic process described by a two state Markov chain. The associated transition probability matrices reflect the fact that more educated agents face a higher probability to remain employed next period if they are currently employed and, if they are actually unemployed they also have a higher probability of being employed next period. The steady state analysis shows that this model economy can generate a high concentration of income as suggested by the Brazilian empirical evidence.

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