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Aggregation and Redistribution in General Equilibrium

Paper Abstract (*Preliminary work, no Draft Available to Circulate*)

In a disaggregated economy with multiple industries, primary factors, and final users, I show how to map micro-level demand, supply, and price elasticities into macro-level elasticities that govern the evolution of factor prices and quantities. I first characterize macro demand and supply elasticities, which describe the slopes of a factor supply equation and a relative factor demand equation. I then derive general equilibrium elasticities which govern the response of endogenous variables to exogenous shocks. For each elasticity, I isolate four components corresponding to all combinations of aggregate and cross-sectional shocks and outcomes. I find that cross-sectional shocks can have aggregate effects in general equilibrium – and vice versa – whenever primary factors have heterogeneous supply elasticities or factor prices have heterogeneous passthrough into aggregate prices. I apply the framework to illustrate the aggregate and redistributive effects of several demand and supply shocks, such as monetary policy, fiscal policy, biased productivity changes, and changes in trade costs.