

Abstract

There is a well documented interdependence between the investment and saving decisions of entrepreneurial households. I study this interdependence in a dynamic, general equilibrium model with heterogeneous agents and occupational choice. The simulated economy replicates U.S. data on the distribution of wealth and income, and the shares of wealth and income for each occupation. The dominant incentive behind the high level of savings of business households is the desire to relax a wealth constraint in financing entrepreneurial projects in order to operate their firms at an optimal size. Because successful firms grow over time, entrepreneurs enter business despite lower initial earnings than they would receive in paid employment.

<http://dx.doi.org/10.1016/j.jmoneco.2006.04.004>