

*Kirill Borissov*<sup>1</sup>

European University at St.Petersburg and  
St.Petersburg Institute for Economics and Mathematics (RAS)

*Stephane Lambrecht*

PRES *Université Lille Nord de France*, Université de Valenciennes et du  
Hainaut-Cambrésis (UVHC) and  
Laboratoire EQUIPPE - Universités de Lille

# Education, Wage Inequality and Growth<sup>2</sup>

## Abstract

We model a successive-generation economy in which parents, motivated by family altruism, decide to finance or not their offspring's capital accumulation on the basis of their altruistic motive, their own income and the equilibrium ratio between skilled-labor and unskilled-labor wages. The question we ask is how the growth process in this economy shapes the wage inequality and the split of the population in two classes, i.e. whether skilled and unskilled families coexist, especially in the long run. We study the transitional dynamics of human capital accumulation and of wage inequality, show that there exist a continuum of steady states equilibria and prove the convergence of the economy to this set of steady states. We look at the relationship between inequality and output on the set of steady states and find that this relationship is ambiguous. An extension of the model to account for endogenous growth displays the ambiguous relationship.

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<sup>1</sup>Corresponding author: European University at Saint Petersburg, 3 Gagarinskaya street, Saint Petersburg, 191187 Russia, email: kirill@eu.spb.ru

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