Creative Destruction, Inequality and Asset Prices*

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Abstract
We analyze the effect of technological innovation on asset prices in a tractable, general equilibrium framework with heterogeneous households and firms. The main feature of our model is incomplete markets. Financial market participants do not capture all the economic rents resulting from innovative activity, even when they own shares in innovating firms. We calibrate the parameters of our general equilibrium model using a minimum distance estimator. Our model reproduces key stylized facts about the cross-section of asset returns and the economy. We derive and test new predictions of our framework using a direct measure of innovation. The model’s predictions are supported by the data.

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