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I.   ABSTRACT

While income data provides information on the current standard of living of households, wealth data provides a glimpse into the financial situation in the past, and to a great extent in to the future. Therefore, Wealth research is particularly interesting, because wealth represents the cumulative effect of historical gaps in wages, income and inheritance, and plays a key role in future gaps, through its impact on the capacity of household investment in education, housing, entrepreneurship and ensuring its economic welfare (Milgrom and Bar-Levav 2015).

In the proposed research, we will use different data sources for different purposes. The first purpose is for wealth imputations. Imputations will be made differently for different kinds of wealth, for real assets and for financial wealth respectively, including their different components. If we want to correctly identify socio-economic gaps in Israel, the distribution of wealth is necessary. The second purpose is to study the effect that real and financial assets have on consumption and on its different components.

There is an extensive existing literature on Wealth Effects, but despite the attention from the research community, there are also many unanswered issues and questions[1]. This research aims to focus on several important issues with regard to wealth effects on consumption that have not yet received sufficient answers or on which consensus has yet to be reached.

In dealing with some of these issues we will try to address the actual definition of wealth, while in others, we attempt to solve two major problems existing in traditional macroeconomic models that stem from two pre-assumptions:

A.   An assumption of homogeneity – and this despite different demographic, pre-existing economic, geographic, and environmental conditions of households.

B.   An assumption of consistency over time.

Practically, these pre-existing assumptions are not met; the actual economy is heterogenic and not consistent over time.

Furthermore, besides examining the different conventional aspects of wealth effects referring to the two basic sets of pre-existing assumptions A and B, we also examine the impact of inserting Relative Wealth Effect considerations into the models. Apparently, there is a difference between being rich and being *relatively* rich. For this purpose, we construct and analyze a Relative Utility Function (see Appendix A.) so as to attempt to answer the question of how Relative Wealth affects one's utility of wealth and consumption. One of the major results we obtain is that when taking into account the Relative Effect, we will obtain different demand points for wealth and this might also have substantial impact on consumption.

We also have reasons to suspect that wealth distribution has a connection to Scale-Free Networks — networks which are dominated by a relatively small number of nodes that are connected to many other sites — such networks are being called "Scale-Free," in the sense that some hubs have a seemingly unlimited number of links and no node is typical of the others.

With relation to the Relative Effect we first will try to identify the actual wealth distribution for several years, by the Power-Law distribution equations: decreasing distribution

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[1] Most of the research questions in this study emanate from Discussion Paper No. 13-4 of the Federal Reserve Bank of Boston by Cooper and Dynan (2013).

typical to Scale Free networks, and then we will characterize the Relative Effect's intensity by the distance from Wealth hubs (see Appendix B.).