5 Concluding remarks

In this paper, through a simple discrete-choice model of consumers' behaviour, we have derived some general results on how changes in demand elasticity may be associated with empirically relevant changes in income distribution. We have shown that the concentration of the households' incomes in the range which one would roughly identify as middle class, results in a relevant segment of demand expanding and becoming more elastic.

This may also contribute to explaining why markets previously patronized only by richer groups of consumers, typically benefit from the middle class entering them, in terms of both market size and lower prices. According to our interpretation, the latter effect (typical, e.g., of some durables) may be seen as a consequence (and not the cause) of the new consumers being indeed middle class. Moreover, the link from income distribution to the degree of competitiveness may add a new perspective in evaluating the effects of redistibutive policies.

Clearly, the relationship between income distribution and market structure can be extended in several directions – to quote some of them, the change in profit margins may trigger entry and exit of firms; different distributions may alter the incentive to horizontal or vertical product differentiation; and, similarly, if income distribution affects price elasticity, it may affect the incentive towards price discrimination. We believe that the framework we have developed could fruitfully be enriched and applied to these research areas.

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