profit levels, which fosters an entry-exit mechanism. The latter changes the competitive structure of the market. In the above setup, distributional shocks of the mean preserving spread type can therefore be seen as generating demand shocks with a procyclical price-elasticity pattern.

5 Conclusions

Consumers' heterogeneity is often referred to as an important element in explaining basic properties of market behaviour. When thinking about income, which is definitely one of the main dimensions of heterogeneity, a natural question in this respect is whether a more egualitarian distribution contributes to creating a more competitive market environment, through mechanisms based on market demand elasticity. This issue has important implications in both an industrial organisation, and a macroeconomic perspective. It identifies a well defined demand component in the endogeneization of market structure, and it suggets a potential link between the personal distribution of income, the competitive pattern of the economy, and the functional distribution of income.

Clearly, the answer to this question depends on the key features of the non-competitive structure under investigation – the relevant distinctions being, e.g , homogeneous *vs* differentiated product, durable *vs* non durable goods, price *vs* quantity competition, etc.

In this paper we have studied this problem within the Dixit-Stiglitz model of product differentiation, which has been widely used both in the industrial economics and in the macroeconomic literature. Our main result is that any tendency towards income concentration brings about a shift in market demand, which is associated to a procyclical change in demand elasticity when the latter is endogeneized through the so-called price index effect. However, the direction of these co-movements in demand and demand elasticity depends on the shape of the Engel's curve: while for necessary goods income concentration reduces the firms' market power, for luxuries it lowers demand and deepens the firms' profit margins.