

**HETEROGENEITY, EFFICIENCY AND ASSET ALLOCATION  
WITH ENDOGENOUS LABOR SUPPLY: THE STATIC CASE**

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Abstract

We study the implications of consumption *and* labor allocations with ex-ante efficiency and possibly ex-post inefficiency on international/inter-regional portfolio diversification. The answers we obtain depend crucially on the market regime relative to unemployment insurance. If there are complete markets for unemployment insurance, changes in asset allocation are small in the presence of ex-post inefficiency but if there are incomplete markets for unemployment insurance, changes in asset allocation can be large. The direction of the asset movement is towards more diversification.

JELit Classification Codes: C0, D8, G0, F0

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