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Biased Perceptions of Inequality and Trust. Theoretical Analysis and Empirical Results

This paper studies the impact of income inequality on trust from a theoretical and an empirical perspective. The model is built on the assumption that trust (defined as expected trustworthiness) is influenced by individual perceptions of inequality. These perceptions might have a social and a geographical bias, i.e. individuals will put a higher weight on others that have a similar social background and that live in greater local proximity. We derive several implications of the model that are then tested by using Austrian survey data. We find that trust is related to expected trustworthiness, that trust is influenced by individual perceptions of inequality and that these perceptions involve a considerable social bias. Subjective measures of inequality have more explanatory power for trust than objective measures (like the Gini coefficient) and the same is true for measures of the ethnic mix.