This dissertation analyzes individual financial decisions and their implications for wealth heterogeneity. In Chapter 1, I build a structural framework of a discrete investment fund choice. Using the Survey of Consumer Finances (SCF) data, I show that households exhibit limited consideration when choosing an investment fund. Specifically, the structural model estimates show that households make their fund choice based only on a subset of available options. Conditional on wealth, monetary losses from limited consideration are higher for less financially literate households, suggestive of their choice simplification.

In Chapter 2, we focus on household mortgage take-up and refinancing decisions. Our novel U.S. data estimates show that the variation in mortgage rates depends on individual financial skill level and search effort. Specifically, we implement stochastic record linkage and find that households with low financial literacy are up to 4% less likely to consider more lenders and lock in at 15-20 b.p. higher rates. Upon origination, unskilled borrowers face a 35-45% higher mortgage delinquency and end up with a 30% lower likelihood of refinancing. We proceed to quantify monetary losses due to ineffective search, and we show that households with low financial skills pay more than 10% extra at the time of origination.

Chapter 3 extends to the general equilibrium and develops a Heterogeneous Agents New Keynesian model with a detailed outline of financial intermediation and plausible marginal propensities to consume (MPC). To motivate the model, we explore household survey data for the Euro area and document substantial heterogeneity in wealthy and poor hand-to-mouth (HtM) shares and in households' liquid and illiquid asset holdings. Accounting for heterogeneous MPCs allows plausible predictions of the effectiveness of fiscal policy in the short and long term. Using the model, we show that financing government debt with debt and government transfers has the largest positive long-term effect on output. To explain aggregate responses to fiscal stimulus, we introduce a new quantitative decomposition of aggregate consumption based on households' HtM status and wealth.