This paper examines welfare costs of inflation considering the heterogeneous effects of access to the housing market in Iran. Over the past twenty years, housing prices have risen more than inflation, which could be a good place for households to invest to cover inflation risk but low-income agents do not usually have access to the housing market to hedge against inflation so incorporating housing market and heterogeneity of agents seem to be important factors in calculating cost of inflation.

We propose a non-convex, heterogeneous-agent model that incorporates housing market to calculate welfare cost of inflation and study transitional dynamics, to study the excessive rise of housing prices and heterogeneous effects of inflation on households. We expect housing prices to rise as a result of an inflation shock, followed by increasing welfare costs for low-income agents and decreasing welfare costs for high-income agents and then the gap between high and low type increases.