Key Ideas #2: Labor Supply and the Allocation of Time

A. Static labor supply

- Graphical comparative statics, income and substitution effects
- Using the Slutsky equation to predict effects of wage changes on hours worked

B Analysis of welfare and transfer programs

- NIT program parameters: guarantee level, tax rate, and breakeven
- Graphical comparative statics
- Graphical analysis of the EITC, work requirements, and budget-constraint cliffs
- Using the Slutsky equation to predict program effects
- Econometric evidence on program effects

C. Home Production

- Time allocation in the Gronau (1977) model of home production
- Graphical comparative statics
- Tax and subsidy effects in a world with home production.
- Effects of children on labor supply; effects of childcare costs on labor supply
- Econometric evidence on the labor supply consequences of childbearing

D. Intertemporal substitution

- The permanent income hypothesis (PIH): how capital markets allow consumers lend to smooth consumption in the face of variable earnings; liquidity constraints
- Effects of wage changes in a dynamic setting; the intertemporal substitution elasticity (ISE).
- Competing models of wage effects: intertemporal substitution vs target earning
- ISE estimation problems: selection bias, measurement error, and division bias
- Experimental and quasi-experimental estimates of the ISE

E. 'Metrics concepts and tools

- Measurement error and attenuation bias
- Selection bias
- Grouped-data and instrumental variables solutions for attenuation and selection bias

MIT OpenCourseWare https://ocw.mit.edu/

14.661 Labor Economics I Fall 2024

For information about citing these materials or our Terms of Use, visit <u>https://ocw.mit.edu/terms</u>.