

## **IZA European Summer School in Labor Economics 2005**

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### **Course: Modelling the labour supply decisions of multi-person households**

The six lectures of the course will present models drawn from the theoretical and empirical literature concerned with labour supply and domestic time allocation decisions of members of multi-person households. The focus of the course will be on the choice of approach to modelling labour supply behaviour for the purposes of policy evaluation. Particular attention will be given to: the economic implications of the choice between market work and household production; the costs of children; and heterogeneity in female labour supply.

The following is an outline of the topics to be covered in each lecture.

- Lecture 1: Introduction
- (i) Overview and limitations of existing models
  - (ii) Empirical evidence on the need for a new approach
- Lecture 2: The single-person model
- (i) The standard consumer model
  - (ii) Time use and household production: the Becker model
  - (iii) The consumer and household production
- Lecture 3: Two-person models with the simple work-leisure dichotomization of time
- (i) Becker's Patriarchal model
  - (ii) Gorman aggregation
  - (iii) Samuelson and the household welfare function
  - (iv) Bargaining models
- Lecture 4: Two-person models with household production and heterogeneity
- (i) The household as a small economy: some modelling approaches
  - (ii) Domestic productivity and the costs of working
  - (iii) Missing data and non-retrievability of the household sharing rule
- Lecture 5: Multi-person households and the life cycle
- (i) Treatment of demographics in labour supply models
  - (ii) Approaches to the measurement of child costs
  - (iii) Life cycle consumption and time allocation decisions
- Lecture 6: Concluding discussion
- (i) Policy implications
  - (ii) Summary and suggestions for future research

## Pre-course reading

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As an overview of the existing literature, begin with:

Blundell, RW, and T MaCurdy (1999),  
**“Labor Supply: A Review of Alternative Approaches”**,  
O Ashenfelter and R Layard, eds.,  
**Handbook of Labor Economics, Vol 111**, Elsevier Science, 1559-1695.

Then, as an introduction to more recent approaches, see

Apps, PF, and R Rees (1997),  
**“Collective Labor Supply and Household Production”**,  
*Journal of Political Economy*, 105, 178-190.

Apps, PF, and R Rees, (1996),  
**“Labour Supply, Household Production and Intra-Family Welfare Distribution”**,  
*Journal of Public Economics*, 60, 199-219.

Chiappori, P-A (1997),  
**Introducing Household Production in Models of Family Labor Supply”**,  
*Journal of Political Economy* 105, 191-209.

## References for the lectures:

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The lectures will be based on the first 4 chapters of a forthcoming book  
“Public Economics and the Household” by Patricia Apps and Ray Rees.  
Copies of these will be distributed at the beginning of the course.

## Additional Reading:

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### Lecture 1:

Heckman, JJ (1993),  
“What Has Been Learned About Labor Supply in the Past Twenty Years?”,  
*American Economic Review, Papers and Proceedings*, 83, 116-121.

### Lecture 2:

Gronau, R, and DS Hamermesh (2003),  
“Taking Household Production Seriously”, *NBER Working Paper No. 9650*.

Pollak, R, and M Wachter (1975),  
“The Relevance of the Household Production Function and Its Implications for the Allocation of Time”, *Journal of Political Economy*, 68, 349-359.

### Lecture 3:

Browning, M, F Bourgiugnon, P-A Chiappori and V Lechene (1994),  
“Incomes and Outcomes: A Structural Model of Intrahousehold Allocation”,  
*Journal of Political Economy*, 102, 1067-1096.

Chiappori, P-A (1988),  
“Rational Household Labor Supply”,  
*Econometrica*, 56, 63-90.

Chiappori, P-A (1992),  
“Collective Labor Supply and Welfare”,  
*Journal of Political Economy*, 100, 437-467.

Fortin, B and G Lacroix (1997),  
“A Test of the Collective and Unitary Model of Labour Supply”,  
*Economic Journal*, 107, 933-955.

Lundberg, S, RA Pollak and TJ Wales (1997),  
“Do Husbands and Wives Pool their Resources? Evidence from the United Kingdom Child Benefit”, *Journal of Human Resources*, 32, 463-480.

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**Lecture 4:**

Apps, PF and R Rees (1988),  
“Taxation and the Household”, *Journal of Public Economics*, 35, 155-169.

Apps, PF and R Rees (1999),  
“On the Taxation of Trade within and between Households”,  
*Journal of Public Economics*, 35, 355-369.

**Lecture 5:**

Apps, P F and R Rees (2002),  
“Household Production, Full Consumption and the Costs of Children”,  
*Labour Economics*, 8, 621-648.

Apps, PF and R Rees (2003),  
“Life Cycle Time Allocation and Saving in an Imperfect Capital Market”, 2003  
NBER Summer Institute session on *Aggregate Implications of Microeconomic  
Consumption Behavior*, Boston, July 21-25 ([www.iza.org](http://www.iza.org)).

Attanasio, OP, H Low and V Sanchez-Marcos (2003),  
“Explaining Changes in Female Labour Supply in a Life-Cycle Model”, 2003  
NBER Summer Institute session on *Aggregate Implications of Microeconomic  
Consumption Behavior*, Boston, July 21-25.

Blundell, RW, M Browning and C Meghir (1994),  
“Consumer Demand and the Life-Cycle Allocation of Household Expenditures”,  
*Review of Economic Studies*, 61, 57-80.

**Lecture 6:**

Apps, PF and R Rees (2004),  
“Fertility, Female Labour Supply and Public Policy”,  
*Scandinavian Journal of Economics*, 106, 745-763.