

Labor Supply Context

Josh Angrist

MIT 14.661 (FALL 2024)

1 Why study labor supply?

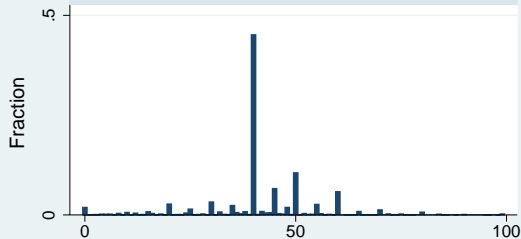
- Most people's income comes mostly from work, that is, their wage and salary earnings
 - Are you interested in the income distribution? If so, labor supply matters to you!
 - Workers who are paid hourly have a ready-made price for their time
 - Even if you're not paid hourly, your time is valuable
 - * The *opportunity cost* of binge-watching [Game of Thrones/Dragon House](#) is the earnings foregone from work not done (lucky are those who can watch on the job!)
- Many public policy outcomes are mediated by labor supply effects
 - Micro: taxes, welfare, social insurance (SS, DI, UI, HI) affect income through labor supply
 - * Labor supply controversy is bipartisan
 - The 2020 Republican-sponsored [March 2020 CARES-Act](#) extended UI coverage categories, increased weeks of coverage, and increased benefit levels for unemployment insurance. Perhaps this unprecedented generosity blunted incentives to work.
 - [UI replacement rates exceeded 100% for many](#)
 - We saw a vigorous debate over [how long this should continue](#)
 - The 2024 [Democrat-sponsored budget](#) raises top tax rates while cutting those for some families with children
 - Both presidential candidates propose to make earnings via tips tax-free
 - Macro: fiscal and monetary policies that affect unemployment and unemployment necessarily are mediated by labor supply
 - * Movement in employment and wages over the business cycle might reflect changes in labor supply

2 Empirical background

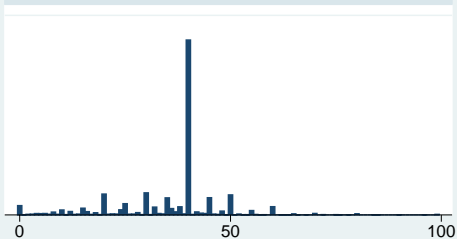
- Measuring labor supply: hours/week; weeks/year; annual hours
- Employment and hours age profiles
- Hours trends by schooling and sex
- Labor supply shocks - we live in interesting times

Weekly Hours Distributions

Male



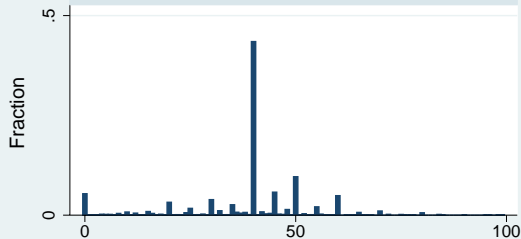
Female



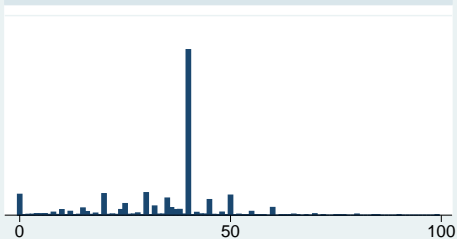
Usual hours worked per week

Source: 2006 American Community Survey in Labor Force

Male



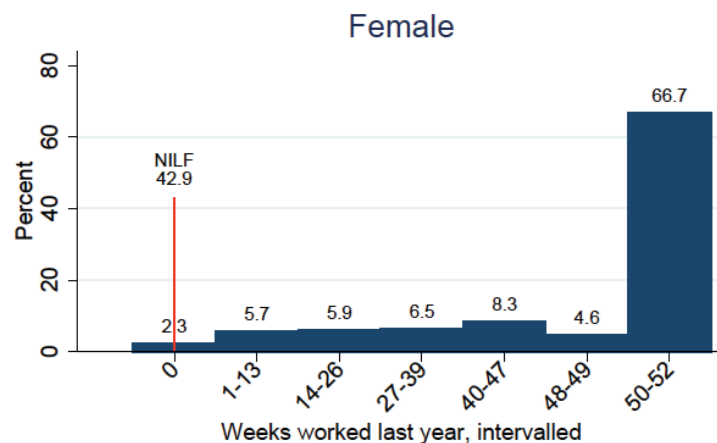
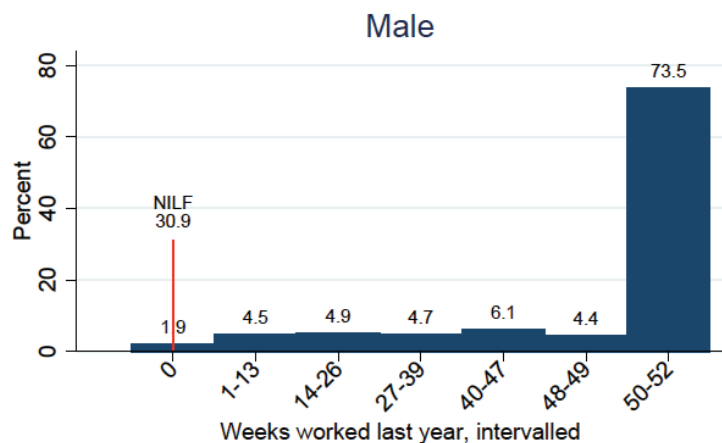
Female



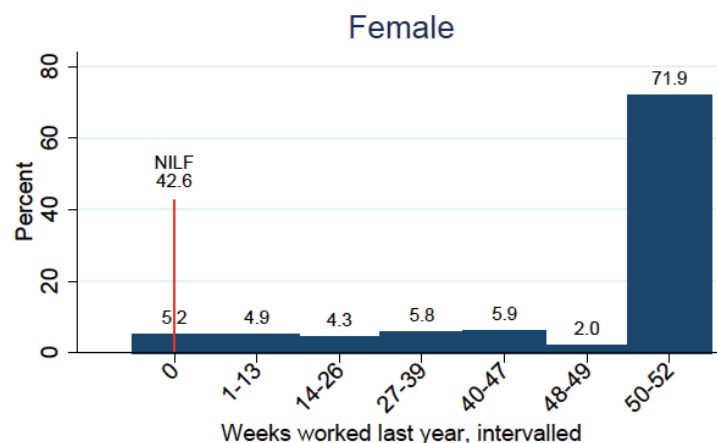
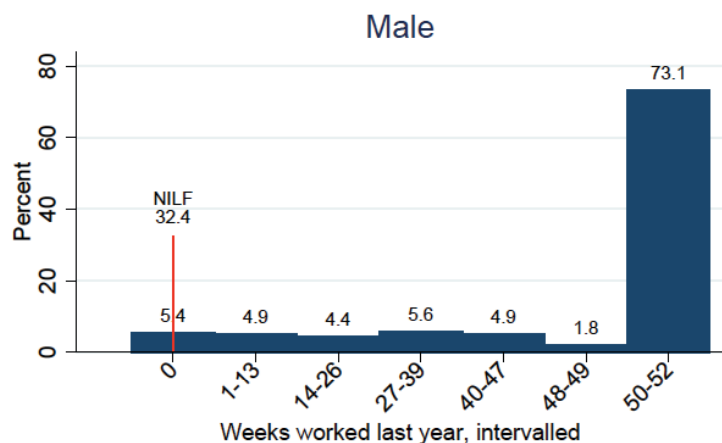
Usual hours worked per week

Source: 2010 American Community Survey in Labor Force

Weeks Worked Distributions

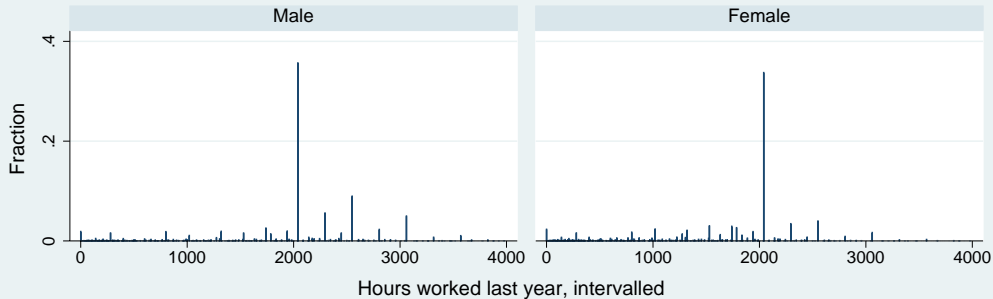


Source: 2006 American Community Survey in Labor Force

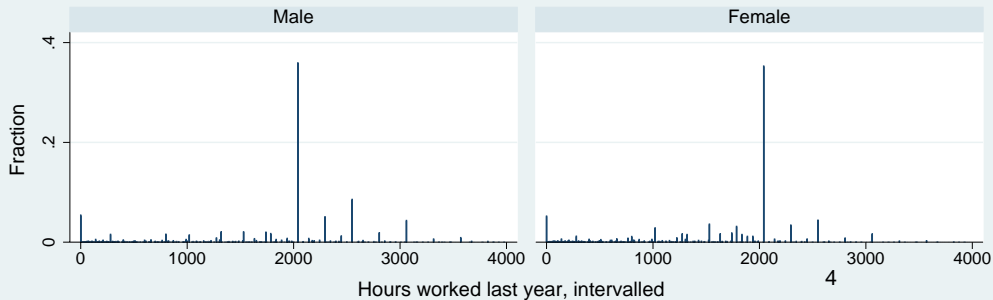


Source: 2010 American Community Survey in Labor Force

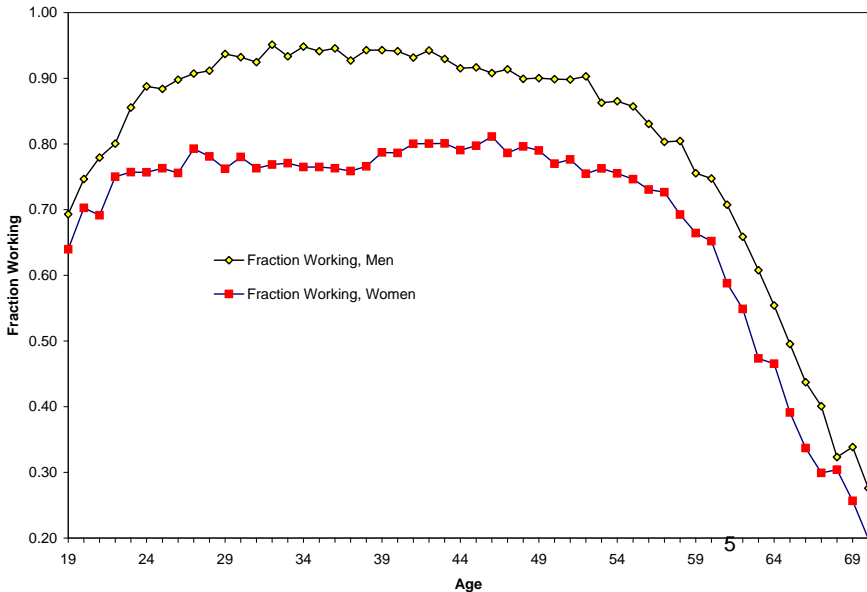
weeks*hours/week = annual hours



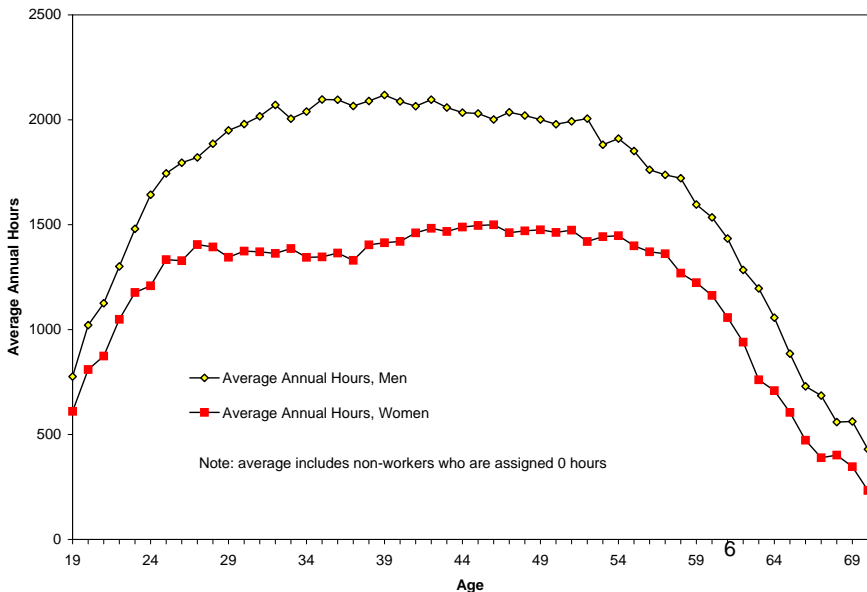
Source: 2006 American Community Survey in Labor Force



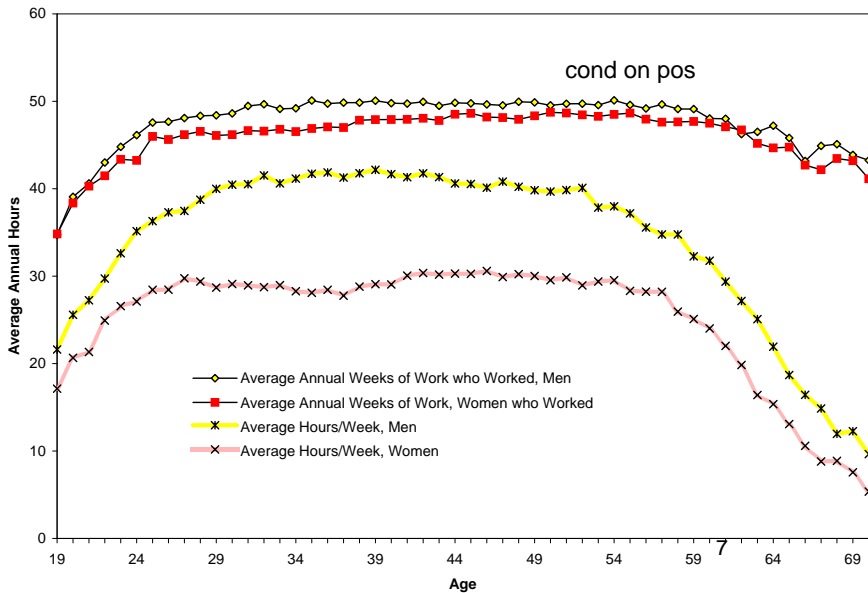
Source: 2010 American Community Survey in Labor Force



Average Annual Hours of Men and Women Last Year, March 2008 CPS



Average Annual Weeks and Hours Per Week of Men and Women, March 2008 CPS



Average Annual Earnings of Men and Women Last Year, March 2008 CPS

hourly wage*hours/yr
= annual earnings



Time series behavior of avg hours

Figure 1: Men's annual (top) and weekly (bottom) hours worked by education level (US) - graph from Blundell and MaCurdy (1999), HoLE, p.1579

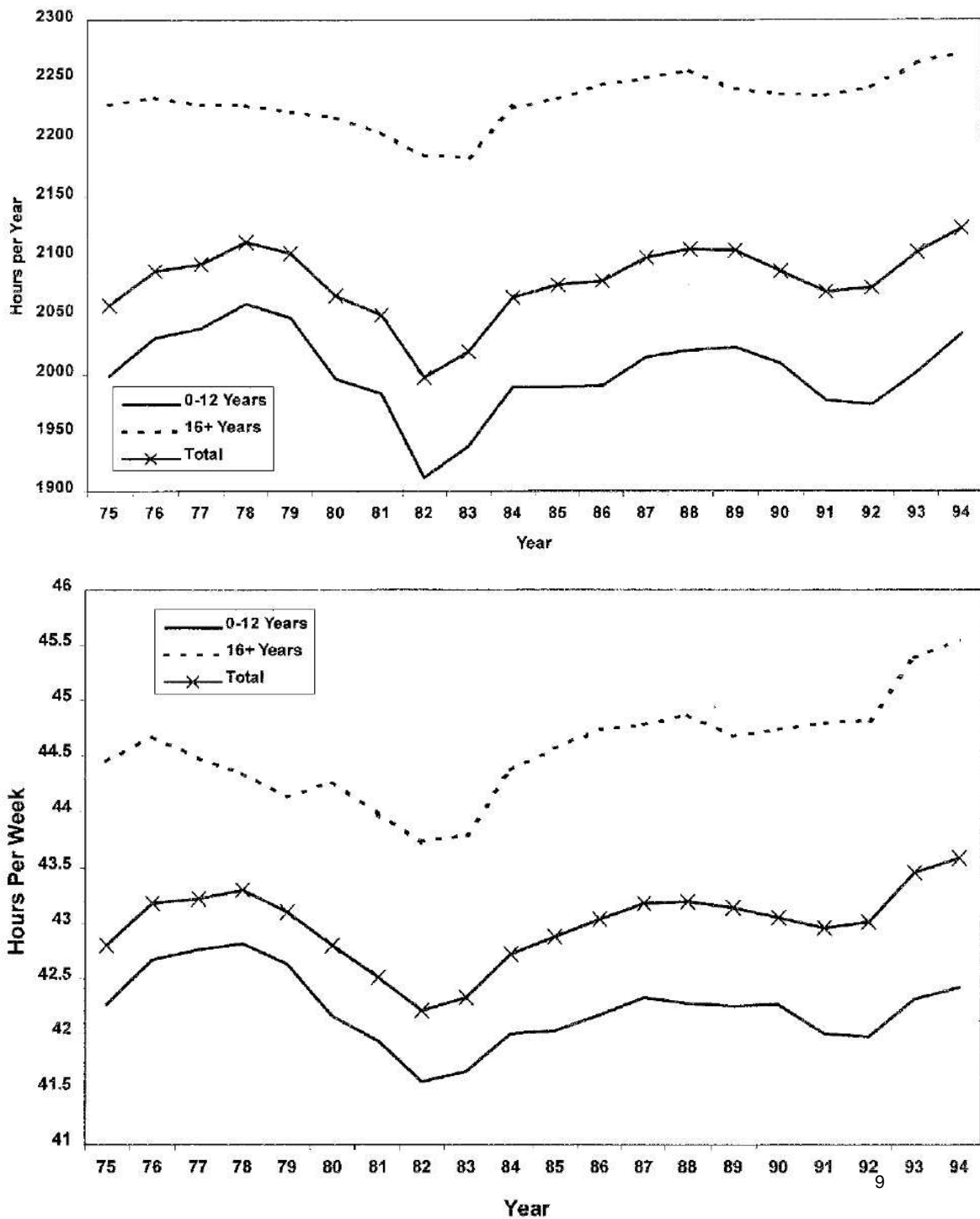
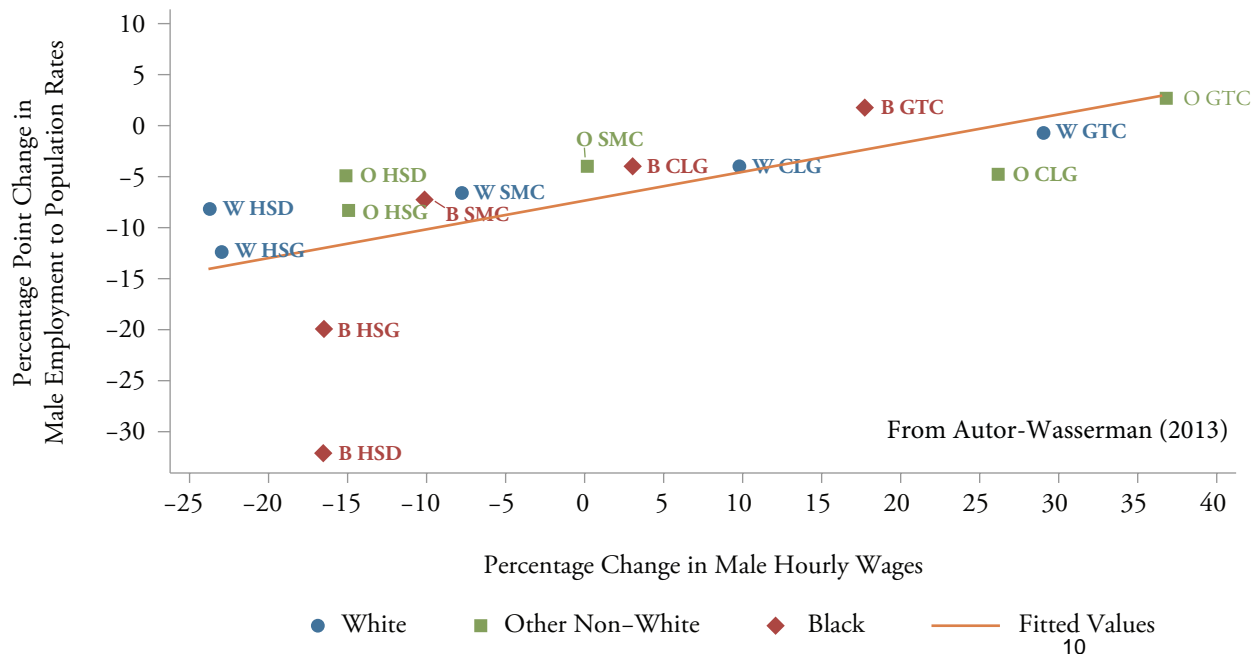


Figure 6: Relationship between Male Employment to Population Rates and Male Earnings for Persons Ages 25-39, 1979-2008²² (might be labor supply)



Source: Census IPUMS 5 percent samples for years 1980, 1990, and 2000 and American Community Survey (ACS) 2009.

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