Economic Perspective on Non-economic Phenomena

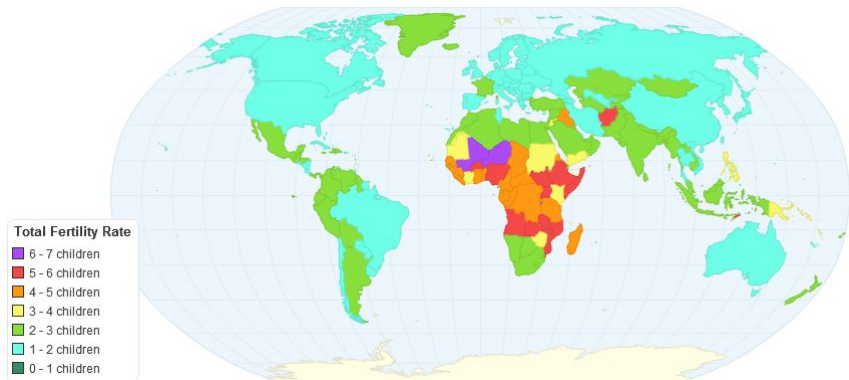## 2) Family - economic approach

Tomáš Miklánek

From the previous lecture...

- Malthusian theory: that fertility would rise and fall as incomes increased and decreased.

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- Contradicted by data:

Total Fertility Rate
- 6 - 7 children
- 5 - 6 children
- 4 - 5 children
- 3 - 4 children
- 2 - 3 children
- 1 - 2 children
- 0 - 1 children

Think about this...

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    - Less discrimination of women. More opportunities for woman employment

Welcome to the family.
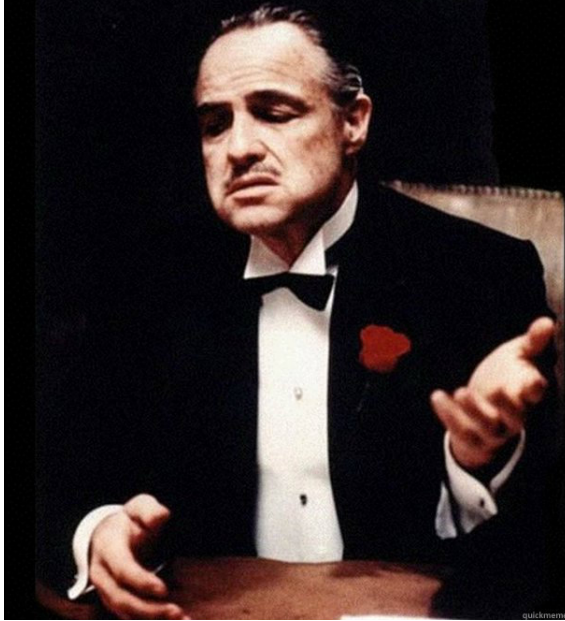
Economic approach to family

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- Other family related topics we will discuss
  - Marriage and labor market
  - Fertility and family politics

Family

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A unified approach to the family which is applicable to modern societies was first provided by Gary Becker
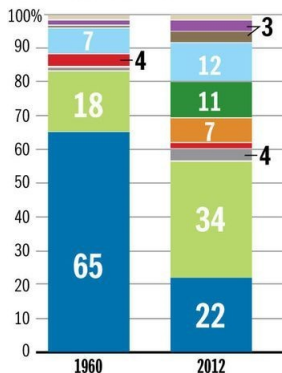
Changes in the family structure

- Example of the US:

Marriage rate in the selected countries
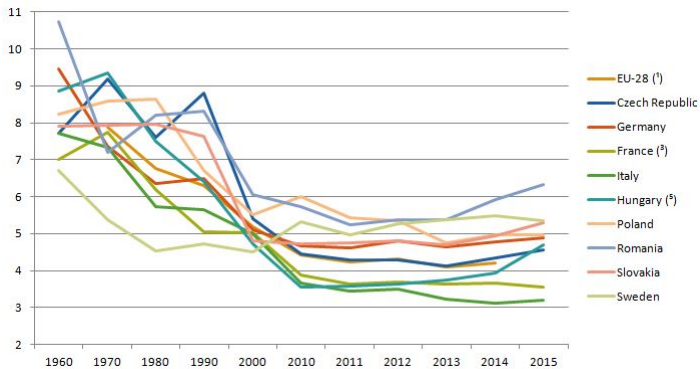
- Source: Based on the Eurostat data

Changes in family structure

- Share of children born to non-married women
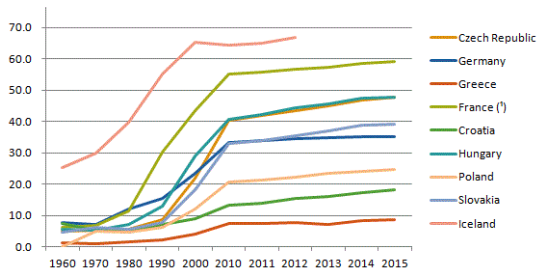
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Change in divorce rate
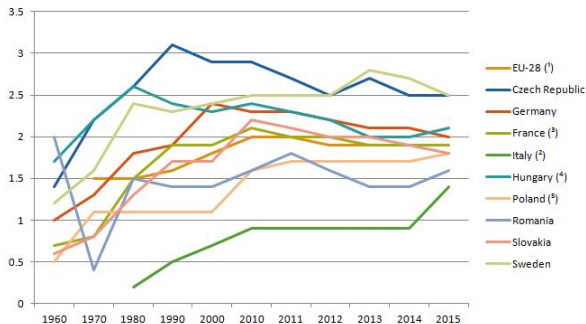
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Change in fertility rate

Trends in Total Fertility Rate by Region, 1950-2050.
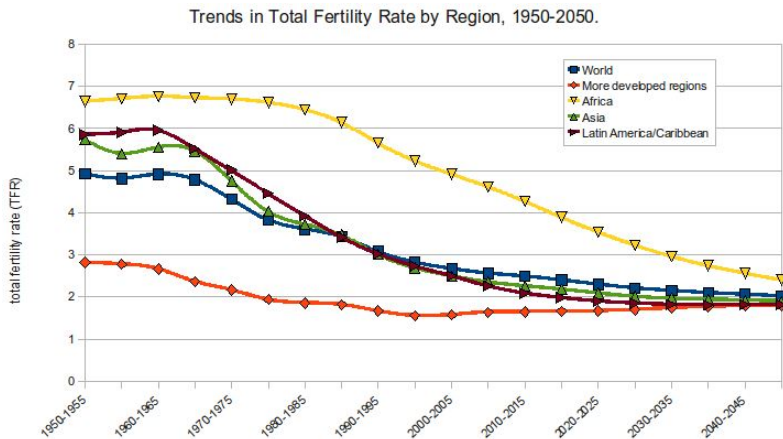
Consumption in households (UK data)
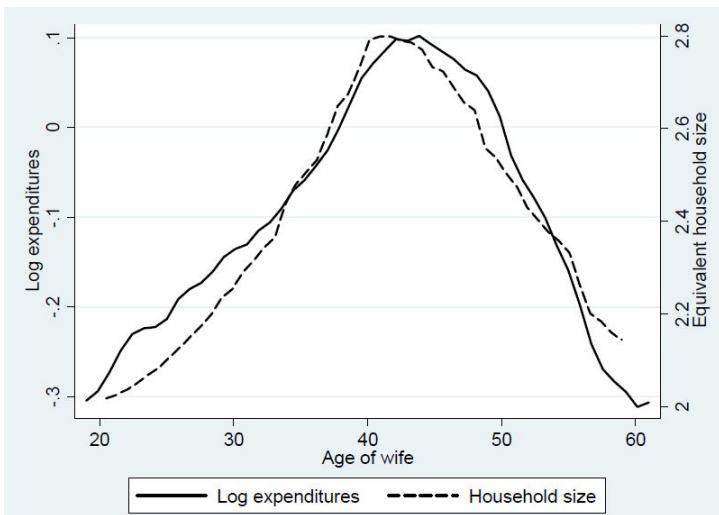
Plan for today

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- Approaches to the family preferences and decision making.

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Examples?

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- In practice, most goods display some publicness and some privateness.

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$$\Downarrow$$

- A possible gain from specialization (due to comparative advantage).

Specialization and Increasing Returns to Scale

- There is evidence that for married couples one partner on average works more than the average of unmarried people of the same sex. The other partner works less than is the average of unmarried people of the same sex.
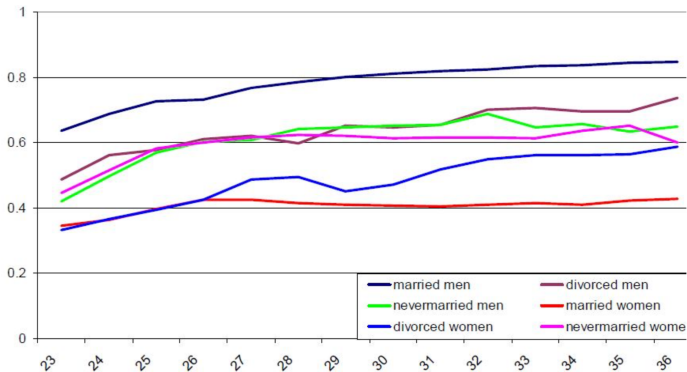
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- If borrowing is impossible there is no investment in schooling

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- Notice that marriage does not completely eliminate the borrowing constraint, because only one person will invest in schooling.

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- A woman will be hesitant to support her husband through medical school if she expect him to break the marriage (and marry a young nurse) when he finishes.

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- Usual utility function - diminishing marginal utility:
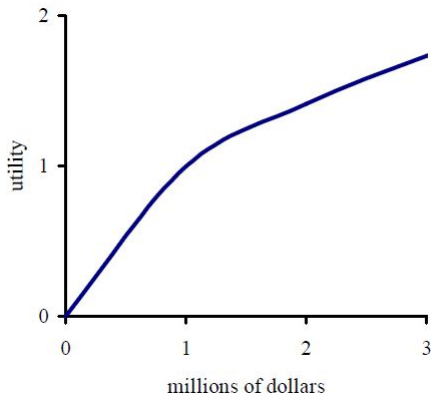
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    - holding family income constant, the idiosyncratic shocks to individual incomes will induce transfers between the partners, but consumption levels will remain the same.

Evidence of risk sharing

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- Hess (2004) finds that couples with a higher correlation in incomes are more likely to divorce, suggesting that effects of mutual insurance on the gains from marriage are higher when the partners' incomes are less correlated.
    - *Example of such correlation?*

Public good: Children

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- We are going to discuss a simple model of gains to the child who lives with both of his/her parents

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- The parameters α and β represent the efficiency of parents a and b, respectively, in childcare.

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- *What is the joint outcome of the parents? (Hint: normalize the total available time to 1 $\Rightarrow$ time spent in work for parent a$= 1 - t_a$)*

reminder: $u_k = c_k + \alpha t_a + \beta t_b$

Children - basic model

The parents would agree to:

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- We will describe implications of the model on the exercise session

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- The prevalence of male-female partnerships has to do with sexual attraction which triggers some initial amount of blind trust.

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- Most models of family behavior allow two decision-makers-the husband and the wife, children are excluded from decision making

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- The altruistic parent will adjust transfers so that each "rotten kid" finds it in his interest to choose actions that maximize family income .

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- Dissatisfaction with unitary models on theoretical grounds has been the product of serious study of marriage and divorce.

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- Consequences of these models
  - The higher one's utility at the threat point, the higher one's utility in the Nash bargaining solution
  - Family demands depend, not only on prices and total family income, but also on determinants of the threat point

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  - 1. Total family income first divided between public goods
  - 2. Private expenditures of each individual, and then each individual allocating his or her share among private goods

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- Benefit of modeling distribution within marriage as a non-cooperative game is the opportunity to treat efficiency as endogenous, potentially dependent upon the institutions and social context of marriage.

Suggested readings

- Suggested readings for today
    - Dufwenberg, Martin, 'Marital investments, time consistency and emotions', Journal of Economic Behavior & Organization, 48 (2002), 57-69.
    - Becker & Becker, The Economics of Life, McGraw-Hill, 1997, Chapter 5
    - Browning, Chiappori, Weiss, Economics of the Family, Cambridge University Press, 2014, Chapter 3 (more technical approach)

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