

Preludium: Income effect and household labour supply decisions: a quasi-experimental approach
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The goal of the project is to provide new empirical evidence on the role of income effect in household labour supply decisions making. The estimation of the income effect is crucial for understanding the determinants of labour supply. However, the results of the previous empirical studies remain inconclusive. This project will fill the gaps in the current research by providing empirical evidence that can be used to improve the theoretical models of labour supply.

An increase in income leads to an increase in demand for leisure (the income effect). However, income increase usually results from an increase in wages. Then, the income effect will be accompanied by the substitution effect of the opposite direction - the opportunity cost of leisure increases. Therefore, it is hard to disentangle income and substitution effect. The introduction of a child benefit in Poland allows for identifying the income effect, because in the case of the unconditional child benefit, the substitution effect will not exist at all. Additionally, the empirical analysis will relax strong assumptions of theoretical models and provide completely novel evidence. First of all, I am interested in the asymmetry of the effect - is the magnitude of the effect of becoming eligible to the benefit the same as the magnitude of the effect of losing the right to child benefit? Furthermore, I will allow the effect to vary with various characteristics such as gender, age and income.

I will use a quasi-experimental design to estimate the impact of introducing child benefit on the parental labour supply. I will use modern econometric methods that allow for causal inference (difference-in-differences, regression discontinuity design, matching methods). In the analysis, I will use micro data from two unique datasets: Polish Household Budget Survey and Polish Labour Survey.