
Consumption Dynamics and Allocation in the Family

Alexandros Theloudis*^{†1}

¹Department of Economics – University College London - Gower Street - London - WC1E 6BT, United Kingdom

Abstract

This paper studies the dynamics of consumption and earnings in the family, and their allocation among family members, in the face of idiosyncratic labor market uncertainty. I develop a dynamic collective household model for individuals in a family who differ in preferences and bargaining power but are tied down together by a common budget constraint. Family members do not necessarily commit to each other for life; instead, the revelation of new information can change the allocation of bargaining power among them. The model features public consumption at the family level, private consumption and leisure at the individual level, and asset accumulation. I derive approximate closed form expressions for consumption and earnings and I use them to map the model to observed behavior. I point-identify a large set of gender-specific preference parameters, the unobserved allocation of consumption, and a rich set of bargaining effects utilizing data on individual wages and earnings, and aggregate family-level consumption. To achieve this, I need consumption information on single adult individuals just before they form a family. Preliminary results from the PSID (1999-2011) indicate that labor supply preferences differ between men and women but consumption preferences do not. The estimation allocates men a large share of consumption (60%); however this allocation is imprecisely estimated. Bargaining effects are large and statistically significant pointing to a rejection of full commitment.

Keywords: ???

*Speaker

[†]Corresponding author: a.theloudis@gmail.com