

DIW Applied Micro Seminar

Risk-sharing and family labor supply

Andreas Steinhauer

Abstract:

Workers facing idiosyncratic income risk and credit market frictions gain from mutual insurance. In the context of families, this sharing of risks can lead to an «added worker effect»: a positive reaction of a worker's labor supply with respect to the spouse's loss of employment. Using unique panel data from Switzerland covering employment and tax records we study family responses in labor supply, household asset accumulation and consumption to income shocks caused by plant closures. Using measures of household net worth and readily available assets, we identify credit constrained families. We present evidence on heterogeneous responses based on pre-displacement assets, liabilities (housing), and the presence of children to shed light on the different mechanisms alluded to in the previous literature.