

DFG Research Unit
Macroeconomic Implications of Intra-Household Decision Making
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Project Leaders

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Summary

Macroeconomic modelling builds on microeconomic foundations. Over the last decades, the macroeconomic literature has increasingly incorporated heterogeneous households to analyze, e.g., the transmission of macroeconomic shocks, income and wealth inequality, or the aggregate implications of redistributive policies. Even in these rich model frameworks, however, households are typically represented by a single agent whose behavior does not capture the different consumption, employment or investment possibilities of household members, the changes of the family composition over time, or the bargaining situations between household members with conflicting interests. While abstracting from these intra-household features may be appropriate for specific research questions, it is inadequate to capture several important observations in modern societies.

First, female labor supply has increased sharply over the past decades in developed countries. Second, the cross-sectional income distribution and the ability of households to share labor income risks depend on the assortativeness of mating and on the labor supply choices of couples. Third, income is not pooled within the household, but instead the consumption allocation among adult household members depends on the sources of individual income with implications for consumption inequality and labor supply. Fourth, expenditures related to household composition vary not only systematically over the lifecycle, but also respond to unexpected events, which has an impact on household's savings and labor supply decisions. Finally, households provide self-insurance at the family level, e.g., through labor supply decisions of secondary earners, home provided health care, joint housing, or monetary transfers at the family level. Adjustments along such margins have implications for the joint behavior of the household.

The goal of this research unit is to study these features, which have direct implications for the distributions of income, consumption and wealth across individuals, and for macroeconomic aggregates. Our research program takes into account several aspects of intra-household decision behavior, and moves beyond this by analyzing how household decisions interact with the market allocation of the key production factors in an economy, i.e., aggregate labor, capital, and factor productivity, and their distribution. Through modeling intra-household decisions explicitly, we also broaden the analysis of the economic costs and benefits of policy reforms. With this perspective, our research emphasizes the manifold feedback between intra-household decisions, the allocation of goods and services in an economy, the distribution and intergenerational transmission of income and wealth, and the impact of economic policy for families.