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Habit persistence and the long-run labor supply

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1. Standard macroeconomic models predict that a permanent increase in income causes a decline in the number of hours worked
2. I provide time series, cross country and micro evidence that there is no relationship between income and labor hours worked
3. I show that the intertemporal elasticity of substitution (IES) is the key driving parameter in a standard neoclassical model
4. I show that both internal and external habit persistence can resolve this puzzle independent of the IES