

Author's Accepted Manuscript

Liquidity constraints and labor supply

Mariacristina Rossi, Serena Trucchi



PII: S0014-2921(16)30085-X

DOI: <http://dx.doi.org/10.1016/j.euroecorev.2016.05.001>

Reference: EER2870

To appear in: *European Economic Review*

Received date: 25 June 2014

Revised date: 2 May 2016

Accepted date: 5 May 2016

Cite this article as: Mariacristina Rossi and Serena Trucchi, Liquidity constraint and labor supply, *European Economic Review* <http://dx.doi.org/10.1016/j.euroecorev.2016.05.001>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and a review of the resulting galley proof before it is published in its final citable form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain

Liquidity constraints and labor supply

Mariacristina Rossi^{a,*}, Serena Trucchi^{b,**}

^a *University of Turin, CeRP-Collegio Carlo Alberto and Netspar.*

^b *University College London and CeRP-Collegio Carlo Alberto.*

Abstract

In this paper we shed some light on how restrictions in financial markets, the so called liquidity constraints, might act in affecting labour supply decisions of Italian workers. One way to neutralize the existence of binding liquidity constraints is simply by supplying additional labor, instead of reducing consumption. We estimate whether resorting to additional labor supply as a smoothing consumption device is at work by using the Survey of Households Income and Wealth (SHIW). The longitudinal dimension of the SHIW dataset allows to control for individual unobserved heterogeneity. We also develop an IV strategy to address the endogeneity of our measure for credit constraints in labor supply equations due to time varying factors.

Our results show that liquidity constraints increase the intensity in the supply of men's labor. Constrained men work, on average, 4 hours more than their unconstrained counterpart. Self-employed workers turn out to be more sensitive to binding liquidity constraints, possibly because they are more flexible in adjusting the intensity of their labor supply.

Keywords: Labor supply, liquidity constraints, life cycle, panel data.

JEL: D1, JE.

*via Real Collegio 30, 10024 Moncalieri (To), Italy.

**Corresponding author. Department of Economics, UCL, Gower Street, London WC1E 6BT, United Kingdom.

Email addresses: mariacristina.rossi@unito.it (Mariacristina Rossi), s.trucchi@ucl.ac.uk (Serena Trucchi)

We are indebted to two anonymous referees for their useful comments. We also thank Rob Alessie, Francesco Manaresi, Eva Sierminska, Arthur van Soest and participants at the 23rd annual EALE Conference, the 26th AIEL Conference and the 2013 Netspar International Pension Workshop for their comments and suggestions. All remaining errors are our own.

Download English Version:

<https://daneshyari.com/en/article/5066567>

Download Persian Version:

<https://daneshyari.com/article/5066567>

[Daneshyari.com](https://daneshyari.com)