

High school sweethearts and intrahousehold allocations

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May 2012

Important: This is *not* a finished paper, but a summary of preliminary results. All comments and suggestions are appreciated. Please do not cite.

Abstract

The goal of this paper is to improve our understanding of individual household responses to changes in the economic and social environment and the mechanisms that shape intrahousehold allocations. To that end we develop a continuous-time life-cycle model of a household consisting of two adults and their children. Couples jointly and cooperatively decide about education, retirement, consumption, labour supply, child care, the number of children and the timing of fertility. Households differ in their preference for similarity in education levels and this has consequences for the optimal allocation decisions. For low values of the preference parameter there is a tendency towards specialization, in that one spouse gets a good education and works in the market while the other focusses on child care. In households where education levels are closer the differences between spouses are less pronounced. We show that the availability of affordable day care may prompt some families to have an additional child and may enable both parents to have a full career in the labour market. If there is a gender wage gap then the symmetry between the sexes is broken and allocation outcomes are no longer interchangeable. Specialization within the household then pushes men towards the labour market and women into child care irrespective of female education levels.

Keywords: Female labour supply, fertility, human capital.

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