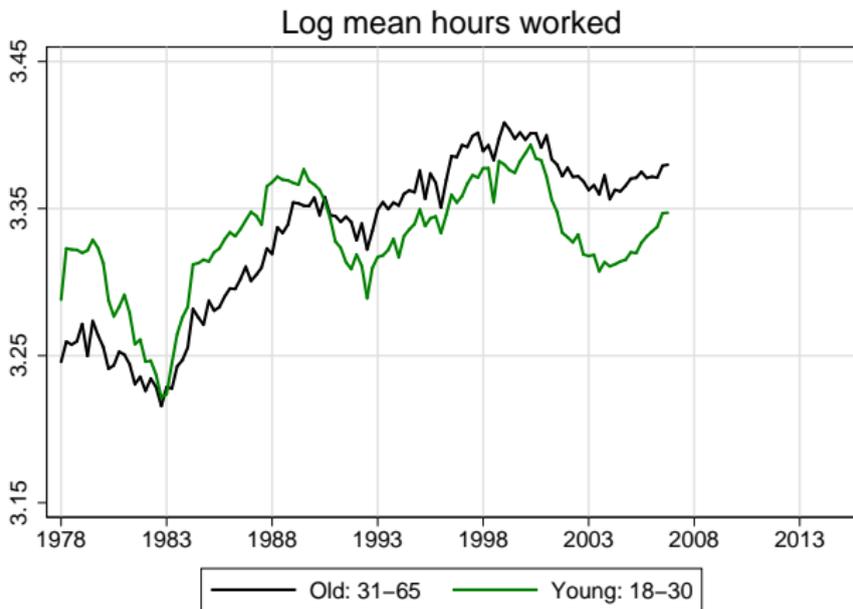


Living Arrangements and Labor Market Volatility of Young Workers

Sebastian Dyrda
Greg Kaplan
José-Víctor Ríos-Rull

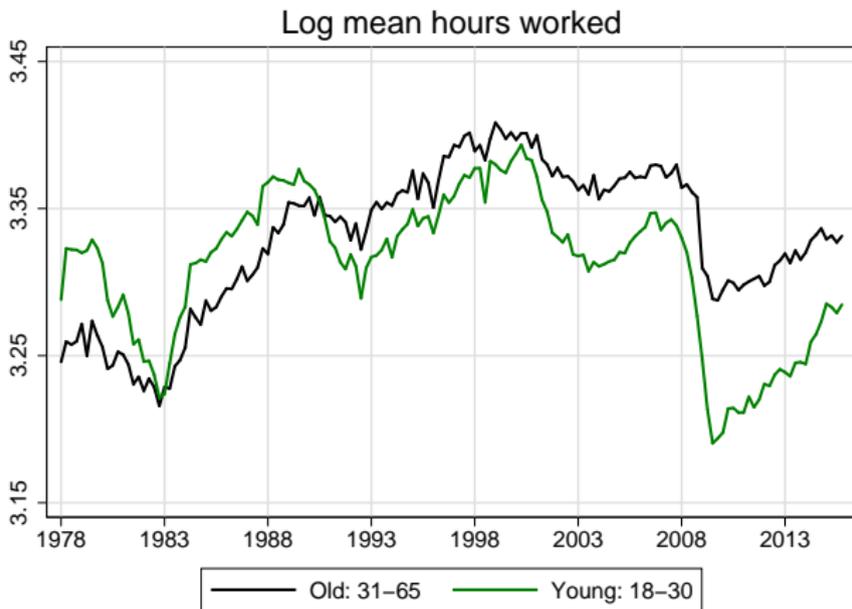
Perspectives on Neoclassical Labor Supply
AEA, January 4, 2020

Hours fluctuations for young people



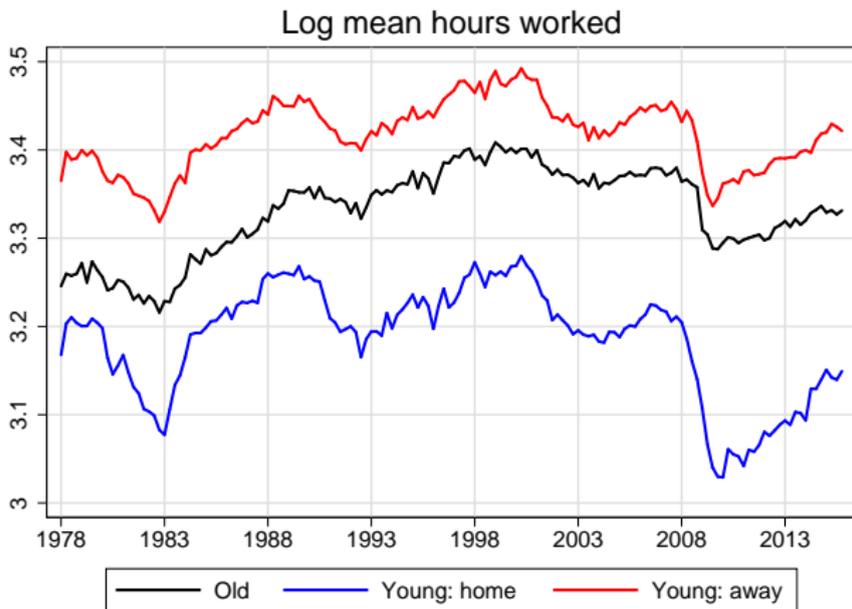
- **Young people (18-30)** larger cyclical volatility in “normal” cycles
- Harder hit during Great Recession

Hours fluctuations for young people



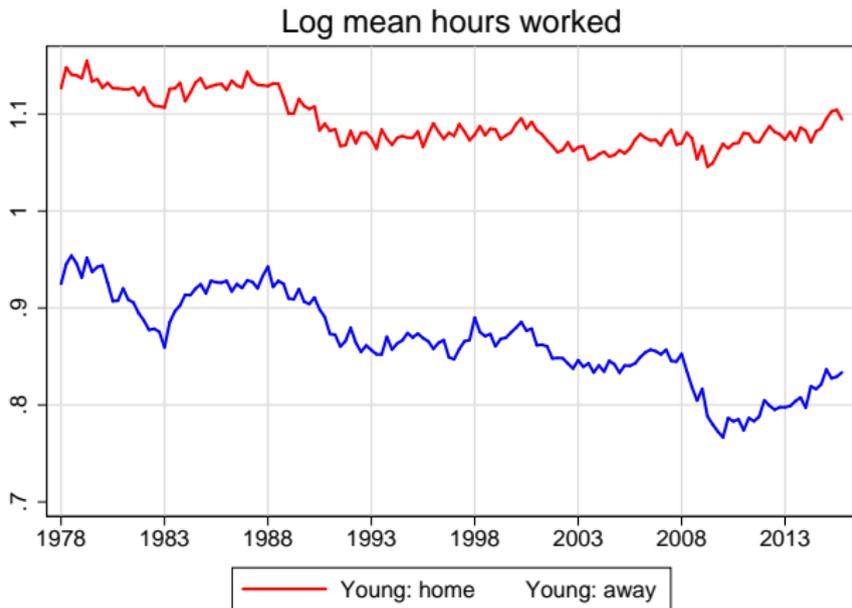
- **Young people (18-30)** larger cyclical volatility in “normal” cycles
- Harder hit during Great Recession

Living arrangements matter more than age



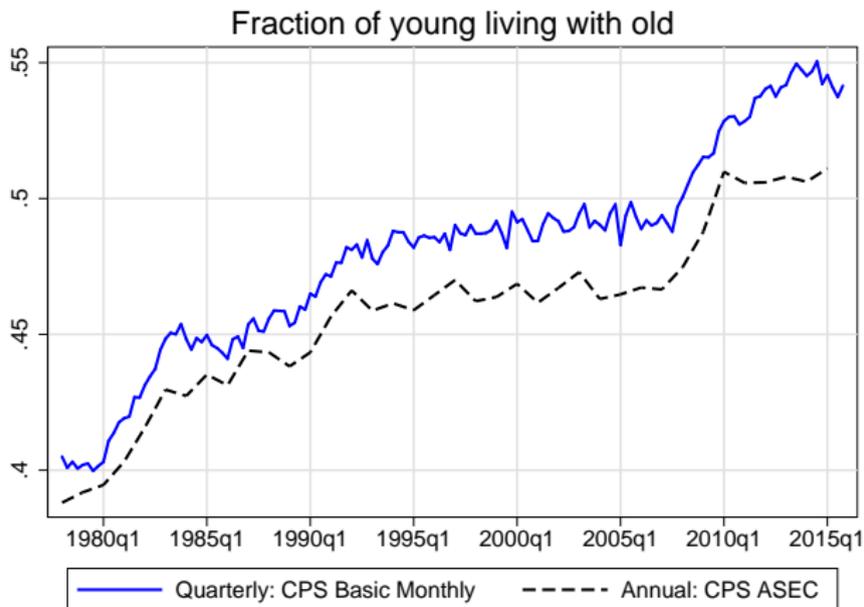
- Roughly half of 18-30 live with a 31-65 (home), half don't (away)
- Young people away: higher average hours, lower volatility
- Additional volatility concentrated among **young at home**

Living arrangements matter more than age



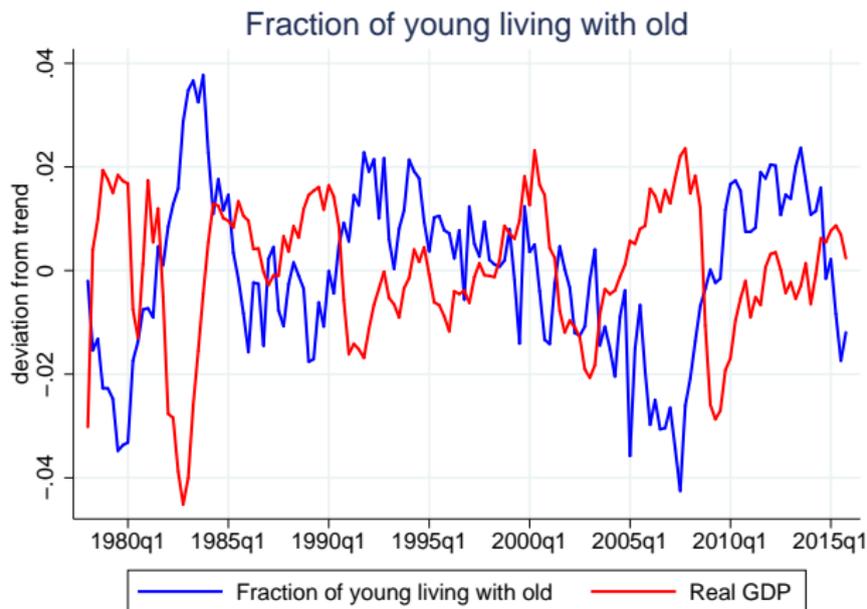
- Roughly half of 18-30 live with a 31-65 (home), half don't (away)
- Young people away: higher average hours, lower volatility
- Additional volatility concentrated among **young at home**

Living arrangements: endogenous, countercyclical



- Secular upward trend since 1980
- Increased by >5pp during Great Recession, barely fallen

Living arrangements: endogenous, countercyclical



- Counter-cyclical also pre Great Recession

This paper

1. **Quantitative theory** of fluctuations in living arrangements and hours worked for young relative to old
 - Co-residence trade-off: **implicit transfers** vs disutility
 - Labor supply more responsive to wages: wedge between **Marshallian elasticity** of young living away vs together

This paper

1. **Quantitative theory** of fluctuations in living arrangements and hours worked for young relative to old
2. **Estimate** model with aggregate data
 - Relative hours, wages by age and coresidence
 - Dynamics of living arrangements
 - De-trended from 1978 to 2006
 - Key identifying assumptions:
 - a. Selection: **functional forms** for dist of unobservables
 - b. Labor supply vs demand: conditional on skills, **living arrangements do not affect productivity**

This paper

1. **Quantitative theory** of fluctuations in living arrangements and hours worked for young relative to old
2. **Estimate** model with aggregate data
3. Use estimated model as **measurement device**
 - a. Size of implicit transfers? **17% of consumption of old**
 - b. Difference in Marshallian elasticity by living arrangements? **60% higher for young living with old**
 - c. Importance of coresidence for hours of young?
 - **Possibility of in coresidence: 37% of variance**
 - **Endogeneity in coresidence: 6% of variance**
 - d. Labor supply vs demand for hours volatility of young?
 - e. Implications for Frisch elasticity in RA models? **85% larger**

This paper

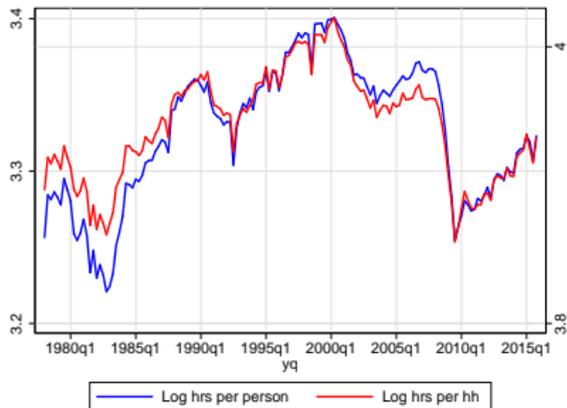
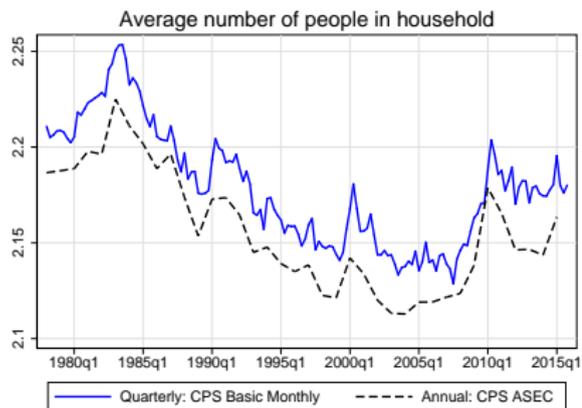
1. **Quantitative theory** of fluctuations in living arrangements and hours worked for young relative to old
2. **Estimate** model with aggregate data
3. Use estimated model as **measurement device**
4. **Interpret Great Recession** experience of young relative to old
 - Given dynamics for hours of old, were hours, wages and living arrangements of young in line with expectations based on previous recessions?
 - Additional relative shift in either labor demand or labor supply?

Evidence

Data: 1978-2015

- CPS Basic Monthly Surveys for hours (monthly)
- CPS ASEC for wages (annual)
- Individuals: 18-65 year olds, not in school, not in group quarters
- Households: households with at least one such person
- Household size: number of 18-65 year olds not in school
- Quarterly series: de-seasonalize using X12-ARIMA from BLS
- Detrending:
 - 1978-2006: Hodrick-Prescott and various other filters,
 - 2007-2010: Great Recession
 - 2011-2015: Great Recession recovery

Hours at the household level



- Household size moves a lot: trend and cyclical
- Hours per person more volatile than hours per household

Useful decomposition

- H = total hours
- N = number of individuals
- F = number of households

$$\underbrace{\frac{H}{N}}_{\text{hours per person}} = \underbrace{\frac{H}{F}}_{\text{hours per household}} \div \underbrace{\frac{N}{F}}_{\text{persons per household}}$$

- Cyclical fluctuations

$$V\left(\log \frac{H}{N}\right) = \underbrace{V\left(\log \frac{H}{F}\right)}_{\text{hrs per hh}} + \underbrace{V\left(\log \frac{F}{N}\right)}_{\text{hh size}} - \underbrace{2COV\left(\log \frac{H}{F}, \log \frac{F}{N}\right)}_{\text{covariance term}}$$

Useful decomposition

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	Cyclical Variance, 78-06		Great Recession Change, 07-10	
	Quarterly	Annual	Quarterly	Annual
hrs per hh	85%	92%	84%	85%
hh size	5%	3%	16%	15%
covariance	10%	5%		

- Changes in household size offset around 8%-15% of changes in hours per person, at the household level

Living arrangements and hours of young, 78-06

Definitions:

- Population: 18-65 yr olds not in school
- Young: 18-30
- Old: 31-65
- Young away: no old people in household
- Young together: ≥ 1 old person in household

Living arrangements and hours of young, 78-06

Definitions:

- Population: 18-65 yr olds not in school
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Quarterly moments *relative to old*, 1978-06:

	Young	Young Away	Young Together
Mean hours	1.00		
St dev log hours	1.58		

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St dev log hours	1.58	1.32	1.89

- St dev log fraction young with old ≈ 0.8
- Cyclical correlation with hours worked ≈ -0.6

Useful decomposition 2

- Importance of **endogeneity of coresidence**: counterfactual series for hours assuming constant $x =$ fraction of young living with old
- All variation in hours is due to variation in hours of two groups:

$$M = \frac{V(\log h^y) - V(\log [\bar{x}h^{yT} + (1 - \bar{x})h^{yA}])}{V(\log h^y)}$$
$$\approx 5\%$$

Wages: labor supply or labor demand?

- Living arrangements: labor supply different for young vs old
- **Jaimovich, Pruitt, Siu (2013)** wages \rightarrow labor demand differences

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Annual moments relative to old, 1978-06:

	Young	Young Away	Young Together
Mean wages	0.65		
St dev log wages	1.07		

Wages: labor supply or labor demand?

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Annual moments relative to old, 1978-06:

	Young	Young Away	Young Together
Mean wages	0.65	0.75	0.52
St dev log wages	1.07	1.18	1.11

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Annual moments relative to old, 1978-06:

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- Labor demand story:
 - Technology with imperfect substitutability between old and young
 - Quantitative argument requires Frisch for young = 7, old = ∞
- Alternative - supply side story:
 - Imperfect substitutability by living arrangements implausible
 - Labor supply elasticities for old disciplined by micro estimates

Model

Demographics

Old agents

- Identical
- Live in unitary households
- Can be invaded by a young agent

Young agents

- Two independent idiosyncratic shocks
 - Individual productivity ε
 - Distaste for living with old agents η
- Can invade an old households

At any point in time there are three types of agents:

1. Old: μ
2. Young alone: $(1 - \mu)(1 - x)$
3. Young together (with old): $(1 - \mu)x$

Old agents

- Standard RA intertemporal problem

$$\begin{aligned} V^o(a; w^o, r) &= \max_{c^o, h^o, a'} u^o(c^o, h^o) + \beta \mathbb{E} \left[V^o(a'; w^{o'}, r') \right] \\ \text{s.t.} \quad &c^o + a' = w^o h^o + (1+r)a \end{aligned}$$

- Standard preferences

$$u^o(c, h) = \log c^o - \psi^o \frac{(h^o)^{1 + \frac{1}{\nu^o}}}{1 + \frac{1}{\nu^o}}$$

- Aggregate uncertainty: w^o, r

Young agents

- Young are hand-to-mouth

$$V^y(\varepsilon, \eta; w^y, c^o) = \max_{A, T} \{V^A(\varepsilon; w^y), V^T(\varepsilon, \eta; w^y, c^o)\}$$

- Young alone

$$V^A(\varepsilon; w^y) = \max_{c, h} \frac{c^{1-\gamma}}{1-\gamma} - \psi^y \frac{h^{1+\frac{1}{\nu^y}}}{1+\frac{1}{\nu^y}}$$

s.t. $c = w^y \varepsilon h$

- Young together

$$V^T(\varepsilon, \eta; w^y, c^o) = \max_{c, h} \frac{[c + \zeta(c^o)]^{1-\gamma}}{1-\gamma} - \psi^y \frac{h^{1+\frac{1}{\nu^y}}}{1+\frac{1}{\nu^y}} - \eta$$

s.t. $c = w^y \varepsilon h$

- Require $\gamma < 1$ for positive co-movement of wages and hours
- Implicit transfers from old (economies of scale): $\zeta(c^o)$

Technology

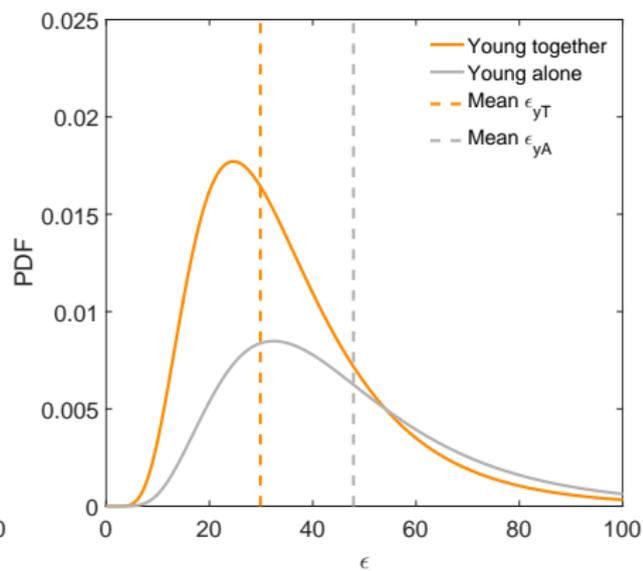
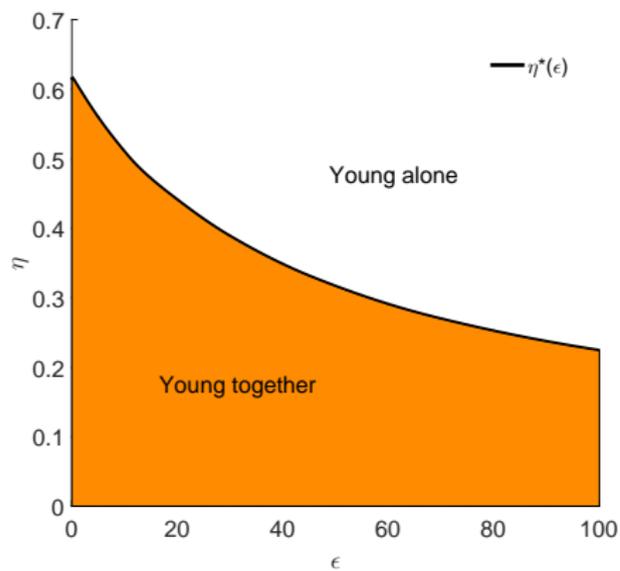
- Nested CES with capital-experience complementarity (Jaimovich-Pruitt-Siu, AER 2013)

$$F(K, N^y, N^o; Z) = \left[\alpha (ZN^y)^\sigma + (1 - \alpha) (\lambda K^\rho + (1 - \lambda) (ZN^o)^\rho)^{\frac{\sigma}{\rho}} \right]^{\frac{1}{\sigma}}$$

where N^y and N^o are labor inputs of young and old

- Technology generates **higher hours and wage volatility for young**
- Technology depends on age, but **not living arrangements**
- Structure on top of standard RBC model: **shocks to Z**

Selection into living arrangements for young



Recursive Competitive Equilibrium

- Aggregate state of economy $s \equiv (K, Z)$
- An equilibrium is a set functions
 - consumption $\{c^{yA}(\varepsilon, s), c^{yT}(\varepsilon, \eta, s), c^o(s)\}$
 - hours worked $\{h^{yA}(\varepsilon, s), h^{yT}(\varepsilon, \eta, s), h^o(s)\}$
 - threshold for staying at home $\eta^*(s, \varepsilon)$
 - fraction of young that move in with the old $x(s)$

such that:

- old maximize given prices
- young maximize given prices and choice of old
- factor markets clear
- fraction of young living with old satisfies

$$x(s) = \int_0^\infty \int_{-\infty}^{\eta^*(s, \varepsilon)} dF_\eta dF_\varepsilon$$

where $\eta^*(s, \varepsilon)$ satisfies the indifference condition for all ε .

Parameterization

Parameterization strategy

Two sets of parameters from outside model:

1. Production function elasticities: Jaimovich-Pruitt-Siu (2013)
2. Frisch elasticity of old: baseline = 0.72
Heathcote-Storesletten-Violante (2014)

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Estimate remaining parameters using cyclical fluctuations, 1978-06

1. Standard aggregates (r , I/Y , Capital Share, Solow residual)
2. Mean hours of old, young alone, young together
3. Mean wages of young alone, young together

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Estimate remaining parameters using cyclical fluctuations, 1978-06

1. Standard aggregates (r , I/Y , Capital Share, Solow residual)
2. Mean hours of old, young alone, young together
3. Mean wages of young alone, young together
4. St dev hrs of young along, young together **relative to st dev hrs old**
5. Mean fraction of young living with old
6. St dev fraction of young living with old **relative to st dev hrs old**
7. Correlation between fraction of young living with old and hours

Intuition for identification

Functional form assumptions

- Productivity heterogeneity: $\varepsilon \sim \log N$
- Disutility heterogeneity: $\eta \sim N$
- Implicit transfer function: $\zeta(c^o) = \zeta_0 + \zeta_1 c^o$

10 parameters, 10 moments:

- Labor disutility old ψ^o : $E[h^o]$
- Labor disutility young ψ^y : $\frac{E[h^y]}{E[h^o]}$
- Productivity dist ε : $\frac{E[w^y]}{E[w^o]}$, $\frac{E[w^{yA}]}{E[w^{yT}]}$
- Young preferences γ, ν^y : $\frac{\sigma[h^y]}{\sigma[h^o]}$, $\frac{\sigma[h^{yA}]}{\sigma[h^{yT}]}$
- Implicit transfers ζ_0, ζ_1 : $\frac{E[h^{yA}]}{E[h^{yT}]}$, $\rho(h, x)$
- Disutility dist η : $E[x]$, $\frac{\sigma[x]}{\sigma[h^o]}$

Model fit

	Data	Model
Relative hours		
$E[h^y]/E[h^o]$	1.00	0.98
$E[h^{yA}]/E[h^{yT}]$	1.24	1.35
$\sigma[h^y]/\sigma[h^o]$	1.58	1.57
$\sigma[h^{yA}]/\sigma[h^{yT}]$	0.69	0.71
Relative wages		
$E[w^y]/E[w^o]$	0.65	0.64
$E[w^{yA}]/E[w^{yT}]$	1.44	1.32
$\sigma[w^y]/\sigma[w^o]$	1.07	1.12
$\sigma[w^{yA}]/\sigma[w^{yT}]$	1.06	1.04
Living arrangements		
$\sigma[x]/\sigma[h^o]$	0.75	0.75
$\text{corr}(x, h)$	-0.56	-0.56
M (%)	5.0	4.5
Contr F/N (%)	15.3	16.1

*Non-targeted moments.

Findings

Size of implicit transfers

$$\zeta(c^o) = \zeta_0 + \zeta_1 c^o$$

1. Average fraction of consumption of old

$$E \left[\frac{\zeta(c^o)}{c^o} \right] = XX\%$$

2. Average fraction of consumption of young together

$$E \left[\frac{\zeta(c^o)}{\zeta(c^o) + c^{yT}} \right] = XX\%$$

3. Average additional hours need to work by young together

$$E \left[\frac{\hat{h}^{yT} - h^{yT}}{h^{yT}} \right] = XX\%$$

Why does coresidence affect hours?

- Frisch elasticity for old = 0.72
- Marshallian elasticity for young alone

$$e^{yA} = \frac{(1-\gamma)\nu^y}{1+\gamma\nu^y}$$

- Marshallian elasticity for young together

$$e^{yT}(\varepsilon) = e^{yA} \times \frac{1 + \frac{1}{1-\gamma} \frac{\zeta(c^o)}{c^{yT}(\varepsilon)}}{1 + \frac{1}{1+\gamma\nu^y} \frac{\zeta(c^o)}{c^{yT}(\varepsilon)}}$$

- If $\gamma < 1$, $\zeta > 0$ then $e^{yT}(\varepsilon) > e^{yA}$
- If $\zeta = 0$ then $e^{yT}(\varepsilon) = e^{yA}$. Also e^{yT} increasing in ζ

Why does coresidence affect hours?

- Frisch elasticity for old = 0.72
- Marshallian elasticity for young alone

$$e^{y^A} = XX$$

- Marshallian elasticity for young together

$$E[e^{y^T}] = XX$$

- If $\gamma < 1$, $\zeta > 0$ then $e^{y^T}(\varepsilon) > e^{y^A}$
- If $\zeta = 0$ then $e^{y^T}(\varepsilon) = e^{y^A}$. Also e^{y^T} increasing in ζ

Importance of coresidence for hours volatility

Experiment 1:

- Possibility of coresidence, no endogeneity of coresidence
- $x = \bar{x}$: fix thresholds $\eta^*(\varepsilon, s) = \eta^*(\varepsilon, \bar{s})$
- St dev of log total hours: **XX% lower**
- St dev of log of young: **XX% lower**

Experiment 2:

- No possibility of coresidence
- $x = 0$: all young live alone
- St dev of log total hours: **XX% lower**
- St dev of log of young: **XX% lower**

Demand vs. Supply channel

	Data	RBC + Imp. Subst.	RBC + Liv. Arr.	Baseline Model
Relative hours				
$E[h^y]/E[h^o]$	1.00	1.01	0.99	0.98
$E[h^{yA}]/E[h^{yT}]$	1.24	-	1.37	1.35
$\sigma[h^y]/\sigma[h^o]$	1.58	1.58	1.60	1.57
$\sigma[h^{yA}]/\sigma[h^{yT}]$	0.69	-	0.72	0.71
Relative wages				
$E[w^y]/E[w^o]$	0.65	0.87	0.63	0.64
$E[w^{yA}]/E[w^{yT}]$	1.44	-	1.33	1.32
$\sigma[w^y]/\sigma[w^o]$	1.07	1.32	1.00	1.12
$\sigma[w^{yA}]/\sigma[w^{yT}]$	1.06	-	1.15	1.04
Living arrangements				
$\sigma[x]/\sigma[h^o]$	0.75	-	0.77	0.75
$\text{corr}(x, h)$	-0.56	-	-0.57	-0.56
M (%)	5.0	-	4.6	4.5

*Frisch for the old across experiments is 0.72.

Implications for RA Frisch elasticity

- RA models: Frisch elasticity key for volatility of aggregate hours
→ **useful metric** for measuring strength of other channels
- What Frisch elasticity would RA model require to generate same volatility of hours as model with young people and coresidence?

Frisch elasticity for old (ν^o)	Implied Frisch in RA RBC model	Proportional Increase
0.72	1.33	85%
0.5	0.87	75%
1.0	2.15	115%
2.0	9.62	381%

Great Recession

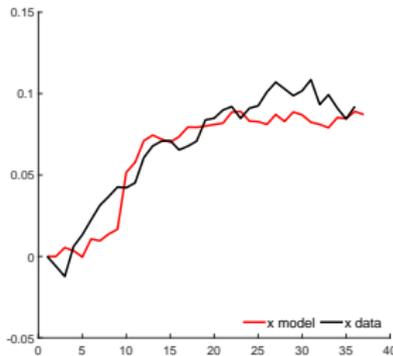
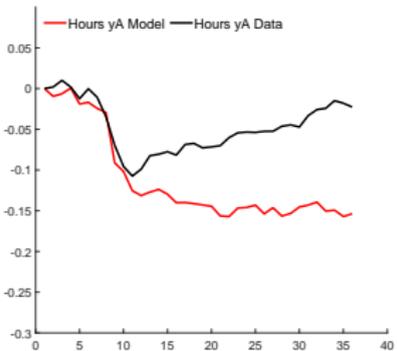
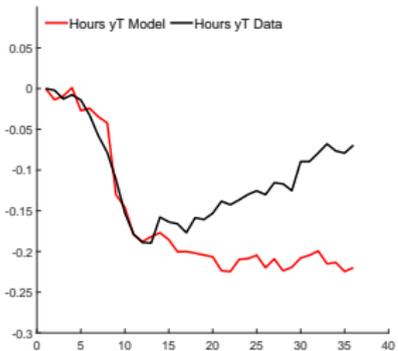
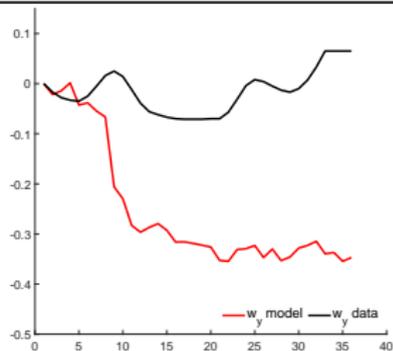
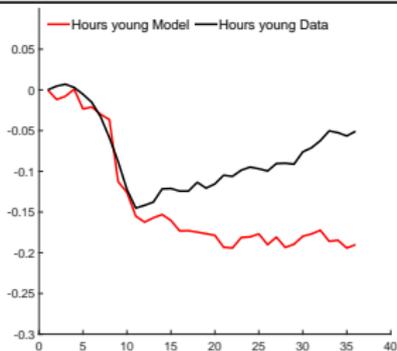
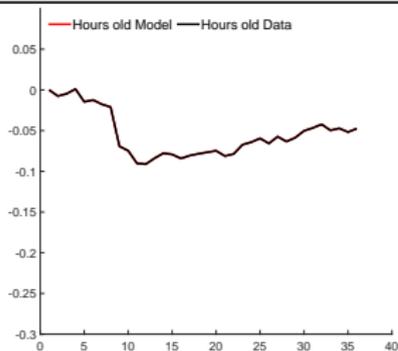
What about the Great Recession?

- Look through the lens of the model at hours of young (alone and together) and living arrangements during the Great Recession.
- Back out values of the shock, so that the model replicates hours of the old between q1:2007 and q4:2015 and see what happens.
- Simulate the model forward with the implied shock values. Agents still have rational expectations about the shock realizations.

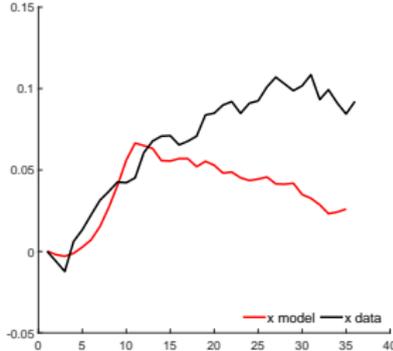
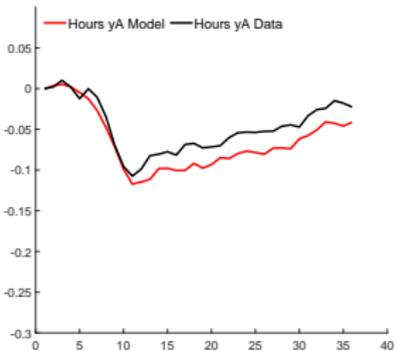
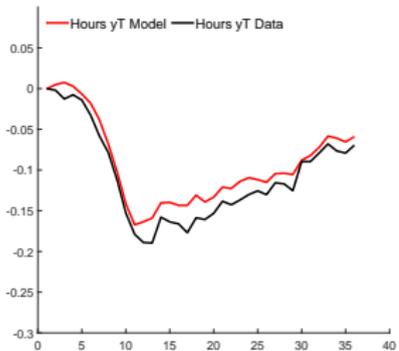
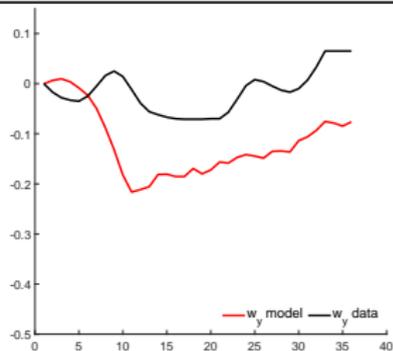
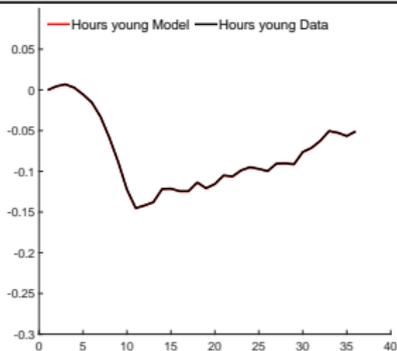
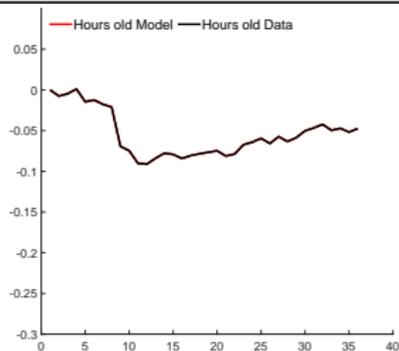
What does the model predict?

- The baseline model gets coresidence right and hours of the young only up to 10th quarter into the recession; misses the recovery.
- Reason: hours of the young recover faster than of the old
- What does it take for the model to account for these patterns?
 - **Asymmetric TFP processes** for young and old; fixes the hours but messes up the composition among young
 - **Improved leisure technology: Aguiar, Bils, Charles, Hurst (2018)**. It becomes less painful to live with parents being equipped with better video games.

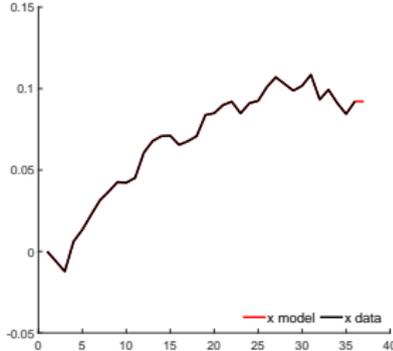
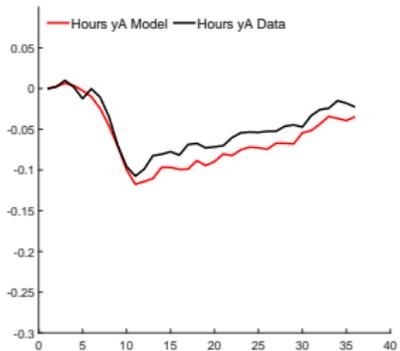
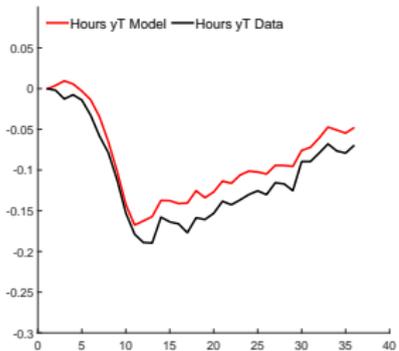
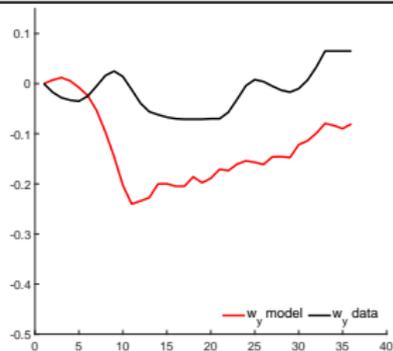
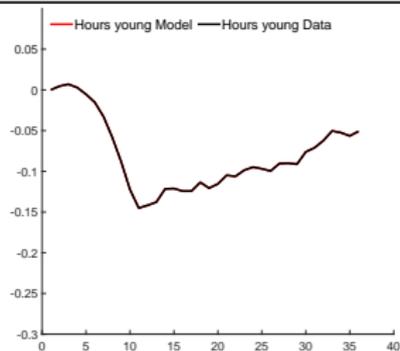
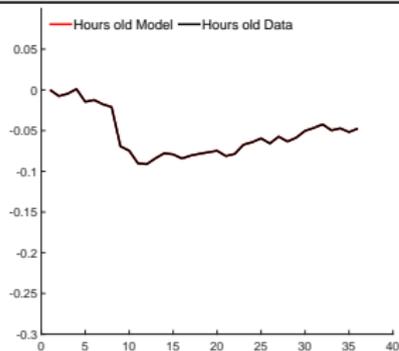
Only aiming hours of the old



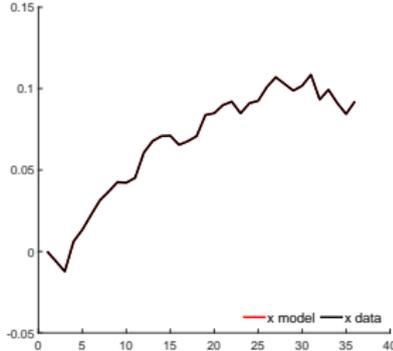
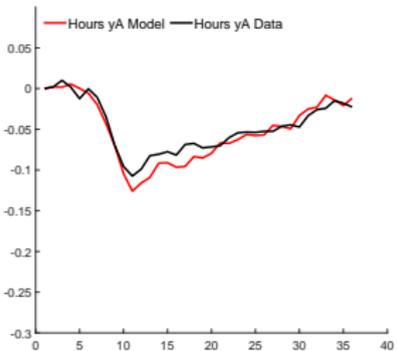
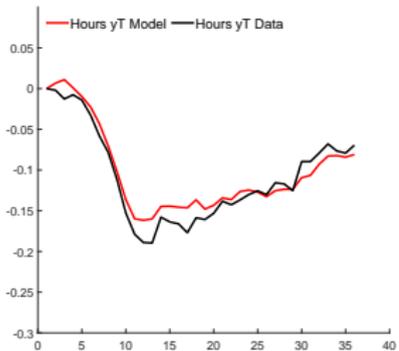
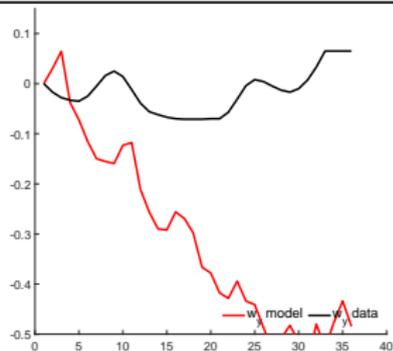
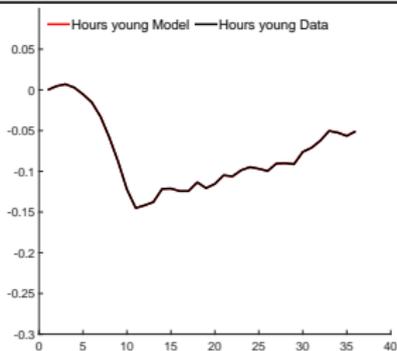
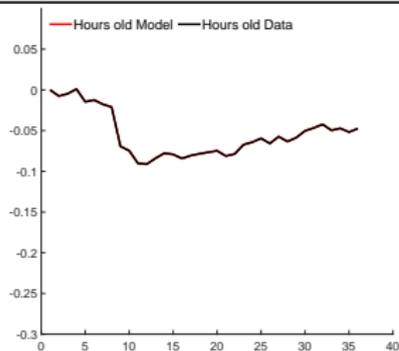
Asymmetric TFP shocks to match hours recovery



Asymmetric TFP shocks + improved leisure (η)



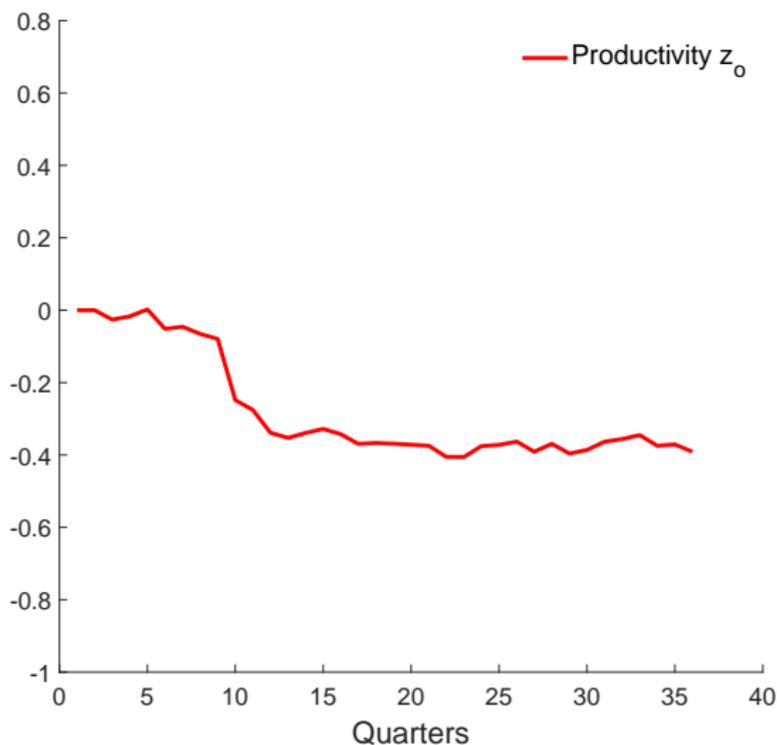
Asymmetric TFP shocks + improved leisure (ψ_y)



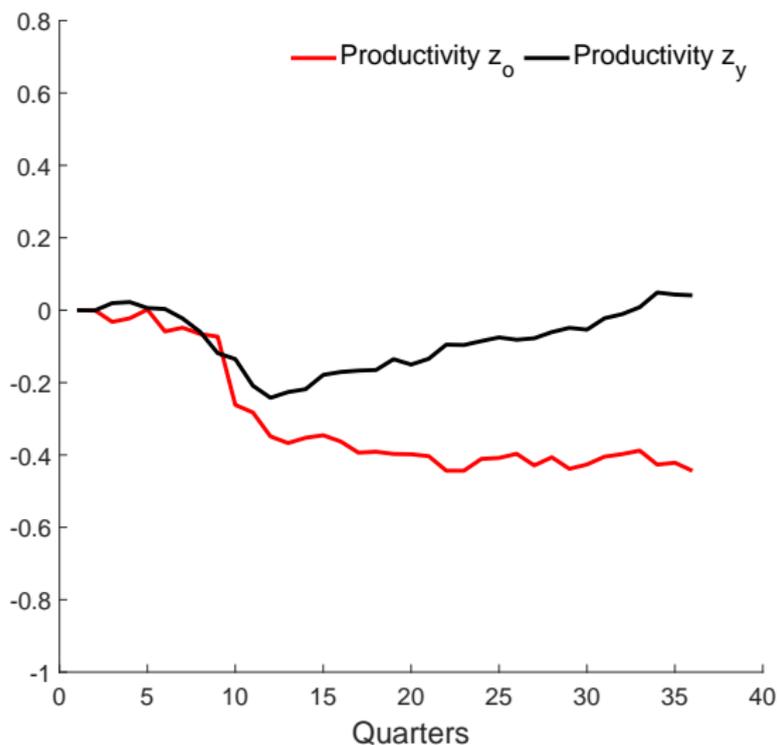
Conclusions

- Young and old have different labor market behaviors.
- We have documented the central role of the living arrangement in shaping the behavior of the young.
- We have also documented the cyclical movements of the living arrangements.
- We have provided a theory of how it works and mapped it to the data. This theory accounts for the average and cyclical behavior of the young and the old.
- As a bonus we have provided a logical theory of the differences between the micro and the macro (which is 85% larger) Frisch elasticities.

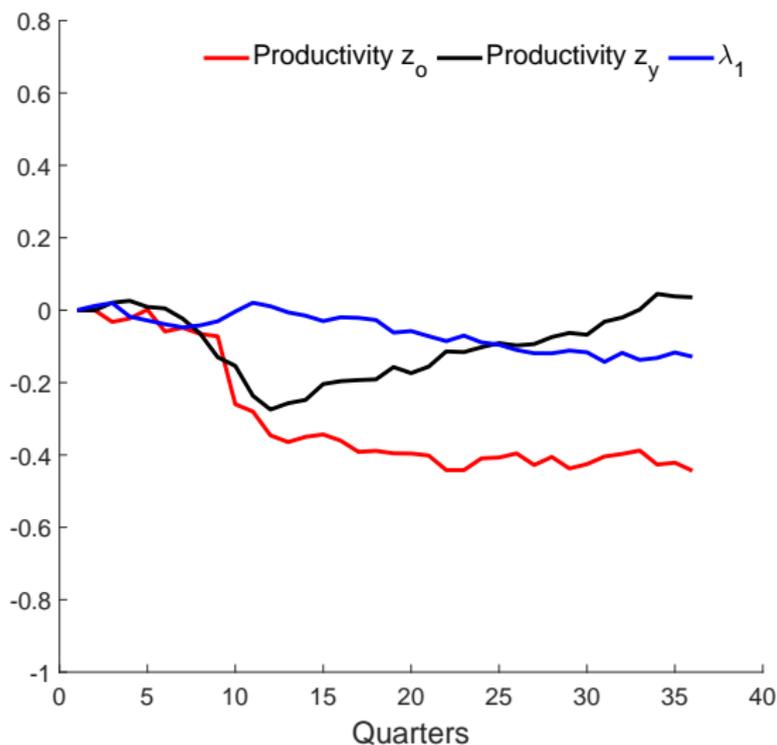
Young hit harder in the GR, but recover faster



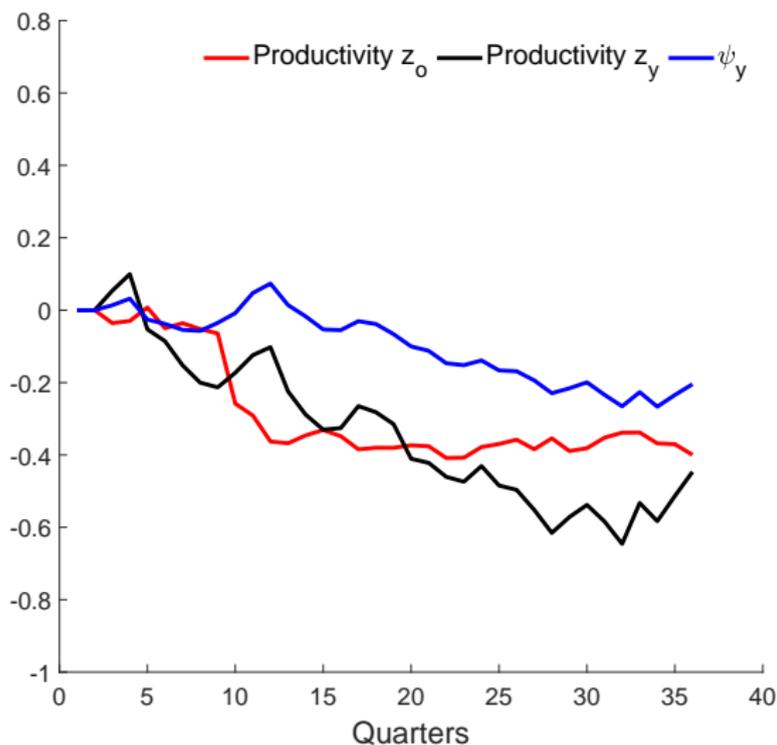
Young hit harder in the GR, but recover faster



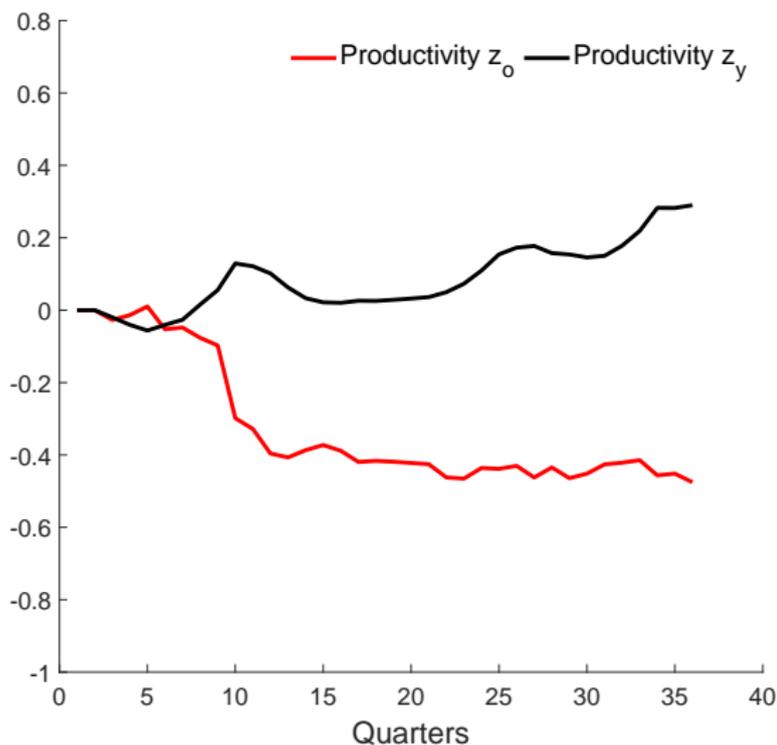
Young hit harder in the GR, but recover faster



Young hit harder in the GR, but recover faster



Young hit harder in the GR, but recover faster



Young hit harder in the GR, but recover faster

