

IAB-Colloquium

zur Arbeitsmarkt- und Berufsforschung

Why not (to) choose the most convenient labor supply model?

Workdays, working hours and economic policy analysis

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Scholars apply different labor supply models when studying economic or planning instruments: (i) endogenous working hours; (ii) endogenous workdays but given daily working hours; (iii) labor supply as a residual. We add a hybrid model and study whether effects of policies which change the cost of labor supply margins are robust against the model employed. We find surprisingly strong differences in quantity and sign. Further, the endogenous workhours approach marks the ceiling and the endogenous workdays approach the bottom of results for welfare changes, optimal policies and all optimal tax components (Pigouvian term, Ramsey term and congestion feedback) as shown by theory, spatial CGE simulations and a Monte Carlo study.

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