David Weiss
University of Pennsylvania

"Risky Income, Risky Families:
Marriage and Divorce in a Volatile Labor Market"

יום שני, 17 בדצמבר 2012, בשעה 13:30
חדר ישיבות תקשורת (C228), בניין ארצי-עופר

Abstract

There has been a striking increase in American idiosyncratic labor income volatility since 1970, with little attention paid to the effects on families. The formation and dissolution of the typical American family has changed substantially, however, with a notable decline/delay of marriage and, since 1980, declining divorce rates. Furthermore, the elderly are divorcing more. This paper demonstrates a quantitatively important link between income volatility and the changing family. Marriage typically involves children, a large, persistent cost, which causes people to dislike risk; volatility therefore causes less marriage. This effect dominates the increased insurance value of marriage that arises because shocks to income are imperfectly correlated between spouses. Once a couple has married, however, the rising insurance value of marriage also leads to a decline in divorce. On the other hand, the elderly are either retired or near retirement and have grown children, and thus are less susceptible to the effects of volatility. Elderly divorce rises as younger people delay divorce. The model qualitatively matches observed family changes over time, and quantitatively accounts for up to a third of the data.