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Finance and Economics Discussion Series: Reconciling Micro and Macro Estimates of the Frisch Labor Supply Elasticity

By William B. Peterman

BiblioGov. Paperback. Book Condition: New. This item is printed on demand. Paperback. 36 pages. Dimensions: 9.7in. x 7.4in. x 0.1in. There are large differences between the microeconomic estimates of the Frisch labor supply elasticity (0-0.5) and the values used by macroeconomists to calibrate general equilibrium models (2-4). The microeconomic estimates of the Frisch are typically estimated by regressing changes in hours on changes in wages conditional on the individual being a married male head of household, working some minimum number of hours and being of prime working age. In contrast macroeconomic calibration values are typically set such that fluctuations in a general equilibrium model match the observed changes in the aggregate hours and wages from the whole population over time. This paper aims to explain the gap by estimating an aggregate Frisch elasticity which is consistent with the concept of macro calibration values using the microeconomic techniques. In order to estimate the Frisch consistent with the macro concept, this paper alters the typical microeconomic approach in order to incorporate fluctuations on the extensive margin and also broadens the scope of the sample to include single males, females, secondary earners, young individuals, and old individuals. This paper finds that estimates of...



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