

# Divorce Laws and Intra-Household Bargaining

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# Plan for today

- Divorce law and intra-household bargaining  
Voena (2015): "Yours, Mine, and Ours: Do Divorce Laws Affect the Intertemporal Behavior of Married Couples?"
  - Limited commitment model as last time  
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- **Reading guide:**
  1. What are the main *research questions*?
  2. What is the (*empirical*) *motivation*?
  3. What are the central *mechanisms in the model*?
  4. What is the *simplest model* in which we could capture these?

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- **Reading guide:**
  1. What are the main *research questions*?
    - How does divorce laws affect saving and female labor supply in marriage?
    - What are the welfare consequences of unilateral divorce?
  2. What is the (*empirical*) *motivation*?
  3. What are the central *mechanisms in the model*?
  4. What is the *simplest model* in which we could capture these?

# Empirical Motivation: I

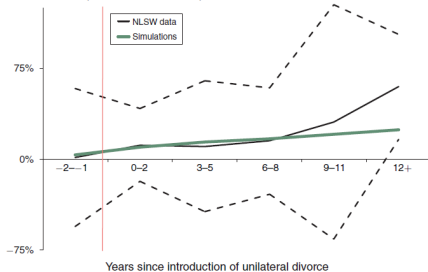
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Using *time- and state variation* in adoption in unilateral divorce

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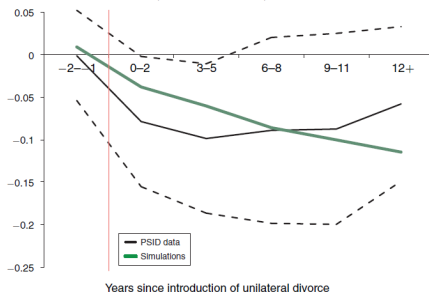
## ● Reduced Form evidence from the US

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Panel A. Assets (simulation and NLSW)



Panel B. Female employment (simulation and PSID)

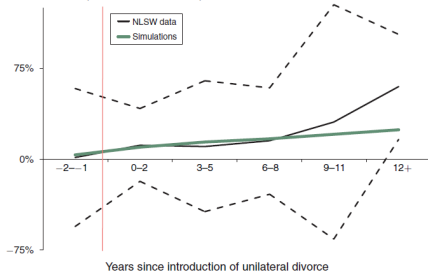


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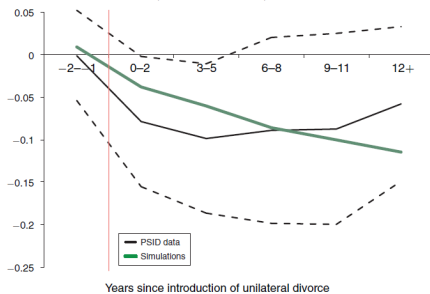
## ● **Reduced Form** evidence from the US

Using *time- and state variation* in adoption in unilateral divorce

Panel A. Assets (simulation and NLSW)



Panel B. Female employment (simulation and PSID)



- **Interpretation:** women with *low bargaining power pre-reform*:  
unilateral → threat to leave → increase bargaining power → work less.

# Empirical Motivation: II

1. Unilateral vs. mutual consent divorce  
[One can decide vs. both has to agree]
2. Community vs. title-based division of property  
[50-50 vs. individual ownership]

Table: Mutual  $\rightarrow$  Unilateral (rows 1+2, Tab. 2).

	Savings	Employment	
Community	↑	↓	increased power of women (last slide)
Title-based	—	—	no sign. effect (everything is private)



# Outline

- 1 **Model and Mechanisms**
- 2 Estimation and Counterfactuals
- 3 Simple Model

# Model Overview

- **Choices:**

$c_t^j$ : consumption of member  $j \in \{H, W\}$

$P_t^W$ : labor market participation, wife (men always work)

$A_{t+1}^j$ : assets of member  $j \in \{H, W\}$

$D_t$ : divorce

- **States ( $\omega_t$ ):**

$A_t^j$ : assets of member  $j \in \{H, W\}$

$z_t^j$ : income shock (perm)

$\varepsilon_t^j$ : match quality shock (love)

$h_t^W$ : human capital, wife only.

$\Omega_t$ : divorce laws.

$(\tilde{\theta}_t^W, \tilde{\theta}_t^H)$ : bargaining weights (in unilateral/limited commitment).

(Childbirth occurs at predetermined ages, perfect foresight)

# State Transitions: Income and Human Capital

- **Income** is

$$\log(y_t^j) = \ln(h_t^j) + z_t^j$$

$$z_t^j = z_{t-1}^j + \zeta_t^j, \quad \zeta_t^j \sim iid \mathcal{N}(0, \sigma_{\zeta^j}^2)$$

- **Human capital** is

$$\log(h_t^j) = \log(h_{t-1}^j) - \delta(1 - P_{t-1}^j) + (\lambda_0^j + \lambda_1^j t) P_{t-1}^j$$

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- **Why** only need to keep track of  $h_t^W$ ?

Because since men always work,  $P_t^H = 1$ , we have

$$\begin{aligned} \log(h_t^H) &= \log(h_{t-1}^H) + (\lambda_0^H + \lambda_1^H t) \\ &= \log(h_{t-2}^H) + (\lambda_0^H + \lambda_1^H (t-1)) + (\lambda_0^H + \lambda_1^H t) \\ &= \underbrace{\log(h_0^H)}_{\text{estimated as intercept}} + \sum_{s=1}^t (\lambda_0^H + \lambda_1^H s) \end{aligned}$$

If heterogeneity in initial condition, we would solve for a grid of  $h_0^H$ . 7 / 27

# State Transitions: Love

- **Match quality (love)** is an AR(1) process

$$\zeta_t^j = \zeta_{t-1}^j + \epsilon_t^j, \quad \epsilon_t^j \sim iid \mathcal{N}(0, \sigma^2)$$

# State Transitions: Assets (Inter-temporal Budget)

- $e(k) \geq 1$  is equiv. scale as function of children,  $k$ .
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**Singles** (share childcare costs):

$$A_{t+1}^j = (1 + r)A_t^j + (y_t^j - d_t^k/2) \cdot P_t^j - c_t^j \cdot e(k) \quad (1)$$

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**Couples** ( $A_t = A_t^H + A_t^W$ ):

$$A_{t+1} = (1 + r)A_t + y_t^H + (y_t^W - d_t^k)P_t^W - x_t \quad (2)$$

where *expenditures* are (couples have econ. of scale,  $\rho \geq 1$ )

$$x_t = [(c_t^H)^\rho + (c_t^W)^\rho]^{\frac{1}{\rho}} e(k)$$



# Preferences

- **Individual preferences** are [my notation]

$$u(c_t^i, P_t^i, D_t^i) = \frac{(c_t^i)^{1-\gamma}}{1-\gamma} - \psi P_t^i + \zeta_t^i(1 - D_t^i)$$

where

$\gamma$  is the CRRA coefficient

$\psi$  is the dis-utility of working

$\zeta_t^i$  is a marital match shock ("love")

# Value of a Divorcee

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$$V_t^{jDR}(\omega_t) = \pi_t^{j\Omega_t} V_t^{jR}(\omega_t) + (1 - \pi_t^{j\Omega_t}) V_t^{jD}(\omega_t)$$

where  $V_t^{jR}$  is *value of re-marriage* (defined next) and

$$\begin{aligned} V_t^{jD}(\omega_t) = & \max_{c_t^j, P_t^j} u(c_t^j, P_t^j, 1) \\ & + \underbrace{\beta \{ \pi_{t+1}^{j\Omega_t} \mathbb{E}_t[V_{t+1}^{jR}(\omega_{t+1})] + (1 - \pi_{t+1}^{j\Omega_t}) \mathbb{E}_t[V_{t+1}^{jD}(\omega_{t+1})] \}}_{\mathbb{E}_t[V_{t+1}^{jDR}(\omega_{t+1})]} \end{aligned}$$

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- **Outside option** is (my notation)

$$V_{j,t}^{m \rightarrow s}(\omega_t; \kappa) = V_t^{jD}(\omega_t, (A_{t-1} - CD)/\kappa_j)$$

where  $CD$  is divorce costs (tab 3),  $\kappa_j = 0.5$  in community property. 11 / 27

# Value of a Remarried

- **Re-marriage** is absorbing. See footnote 7.

- In turn,

$$V_t^{jR}(\omega_t) = u(c^{j*R}, p^{j*R}) + \beta \mathbb{E}_t[V_{t+1}^{jR}(\omega_{t+1})]$$

where

$$\begin{aligned} c^{W*R}, c^{H*R}, p^{W*R} = \arg \max_{c^W, c^H, p^W} & \theta u(c^H, 1, 0) + (1 - \theta) u(c^W, p^W, 0) \\ & + \beta \mathbb{E}_t[\theta V_{t+1}^{HR}(\omega_{t+1}) + (1 - \theta) V_{t+1}^{WR}(\omega_{t+1})] \end{aligned}$$

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- This means that, in the model, divorce can only happen once.
- Reason is computational: Assets brought into the marriage is private  
Keeping track of assets from all previous marriages would be unfeasible.  
No divorce  $\rightarrow$  does not need to keep track of individual assets.

# Household Planning

- **Two cases:**

1. *Mutual Consent*: Both must prefer divorce for it to happen.  
Committed by law (there are exceptions).
2. *Unilateral divorce*: If one prefers divorce, they can divorce.  
Limited commitment.  
See lecture note for my notation, I follow Voena (2015).



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- **Timing-issue**: The bargaining weight is updated in current period.  
(See lecture note)

# Household Planning: Mutual Consent

- **Couples** ( $D_{t-1} = 0$ ) in mutual consent regime solve

$$\begin{aligned}
 V_t(\omega_t) = & \max_{c_t^H, c_t^W, P_t^W, A_{t+1}^H, A_{t+1}^W, D_t} \\
 & (1 - D_t) \left( \theta u(c_t^H, 1, 0) + (1 - \theta) u(c_t^W, P_t^W, 0) + \beta \mathbb{E}_t[V_t(\omega_{t+1})] \right) \\
 & + D_t \left( \theta \{u(c_t^H, 1, 1) + \beta \mathbb{E}_t[V_{t+1}^{HDR}(\omega_{t+1})]\} \right. \\
 & \quad \left. + (1 - \theta) \{u(c_t^W, P_t^W, 1) + \beta \mathbb{E}_t[V_{t+1}^{WDR}(\omega_{t+1})]\} \right)
 \end{aligned}$$

with *constant bargaining weights*  $\theta$  and  $1 - \theta$ .

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with *constant bargaining weights*  $\theta$  and  $1 - \theta$ .

- **Subject to** non-participation constraints, when  $D_t = 1$ ,

$$V_{H,t}^{m \rightarrow s}(\omega_t; \kappa) = u(c_t^H, 1, 1) + \beta \mathbb{E}_t[V_{t+1}^{HDR}(\omega_{t+1})] > V_t^{HM}(\omega_t)$$

$$V_{W,t}^{m \rightarrow s}(\omega_t; \kappa) = u(c_t^W, P_t^W, 1) + \beta \mathbb{E}_t[V_{t+1}^{WDR}(\omega_{t+1})] > V_t^{WM}(\omega_t)$$

# Household Planning: Mutual Consent

- **Divorce only if both want a divorce.**

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- **Divorce only if both want a divorce.**
- **If one is unhappy** in the marriage, say the wife  
 $\theta$  remains unchanged  
 asset-split in divorce,  $\kappa_m$ , is changed in his favor until he is indifferent  
 $\rightarrow$  changes intra-household allocations through  $\beta \mathbb{E}_t[V_{t+1}^{jDR}(\omega_{t+1})]$ .

# Household Planning: Unilateral Divorce

- **Couples** ( $D_{t-1} = 0$ ) in unilateral regime solve

$$\begin{aligned}
 V_t(\omega_t) = & \max_{c_t^H, c_t^W, P_t^W, A_{t+1}^H, A_{t+1}^W, D_t} \\
 & (1 - D_t) \left( \tilde{\theta}_{t+1}^H u(c_t^H, 1, 0) + \tilde{\theta}_{t+1}^W u(c_t^W, P_t^W, 0) + \beta \mathbb{E}_t[V_t(\omega_{t+1})] \right) \\
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 \end{aligned} \tag{3}$$

where  $\tilde{\theta}_{t+1}^j = \tilde{\theta}_t^j + \mu_t^j$  and  $\mu_t^j$  are Lagrange multipliers on

# Household Planning: Unilateral Divorce

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$$V_t(\omega_t) = \max_{c_t^H, c_t^W, P_t^W, A_{t+1}^H, A_{t+1}^W, D_t} \quad (3)$$

$$(1 - D_t) \left( \tilde{\theta}_{t+1}^H u(c_t^H, 1, 0) + \tilde{\theta}_{t+1}^W u(c_t^W, P_t^W, 0) + \beta \mathbb{E}_t[V_t(\omega_{t+1})] \right) \\ + D_t \left( \tilde{\theta}_{t+1}^H \{u(c_t^H, 1, 1) + \beta \mathbb{E}_t[V_{t+1}^{HDR}(\omega_{t+1})]\} \right. \\ \left. + \tilde{\theta}_{t+1}^W \{u(c_t^W, P_t^W, 1) + \beta \mathbb{E}_t[V_{t+1}^{WDR}(\omega_{t+1})]\} \right)$$

where  $\tilde{\theta}_{t+1}^j = \tilde{\theta}_t^j + \mu_t^j$  and  $\mu_t^j$  are Lagrange multipliers on **participation constraints**, when  $D_t = 0$ ,

$$V_{H,t}^{m \rightarrow s}(\omega_t; \frac{1}{2}) \leq V_t^{HM}(\omega_t)$$

$$V_{W,t}^{m \rightarrow s}(\omega_t; \frac{1}{2}) \leq V_t^{WM}(\omega_t)$$

# Household Planning: Unilateral Divorce

- **Individual value of *remaining in marriage*** (RHS of constraint) is

$$V_t^{jM}(\omega_t) = u(c_t^{j*}, P_t^{j*}, 0) + \beta \mathbb{E}_t[V_{t+1}^j(\omega_{t+1})]$$

where  $c_t^{j*}, P_t^{j*}, A_{t+1}^{j*}$  are optimal choices from eq. (3) and

$$V_{t+1}^j(\omega_{t+1}) = (1 - D_{t+1}^*) V_{t+1}^{jM} + D_{t+1}^* V_{t+1}^{jD}$$

is individual **value of *entering as married*** in  $t + 1$ .



# Household Planning: Unilateral Divorce

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is individual **value of *entering as married*** in  $t + 1$ .

- **Choices are made as a household** (with weights on individual utility)  
**individual values** are only based on own utility (and future).

# Household Planning: Unilateral Divorce

- **Beginning of period** bargaining weights,  $\tilde{\theta}_t^j$ , are in  $\omega_t$ .
- **If both participation constraints are not violated** at  $\tilde{\theta}_t^H$  and  $\tilde{\theta}_t^W$ , the Lagrange multipliers are zero and  $\tilde{\theta}_{t+1}^j = \tilde{\theta}_t^j$  is not updated.

# Household Planning: Unilateral Divorce

- **Beginning of period** bargaining weights,  $\tilde{\theta}_t^j$ , are in  $\omega_t$ .
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- **To solve** this model (last time + note)
  1. solve the model for couples assuming they remain together, for a grid of bargaining weights.
  2. If, for a given weight, one spouse is not satisfied ( $V_t^{jD} > V_t^{jM}$ ), update the weight on that spouse until indifferent ( $V_t^{jD} = V_t^{jM}$ ). If the other spouse wants to remain in marriage at this new weight, then update weight and carry on!  
Otherwise, divorce.

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# Estimation

## • 2-step estimation:

1. calibrate (preset) parameters in Table 3+4
2. estimate by SMM 3 parameters in Table 5 using policy variation from mutual to unilateral

TABLE 5—ESTIMATED STRUCTURAL PARAMETERS AND MATCH OF THE AUXILIARY MODEL

Parameter	Symbol	Estimate	Standard error
Standard deviation of preference shocks	$\sigma$	0.0008	0.0004
Disutility from labor market participation	$\psi$	0.0107	0.0025
Husbands' Pareto weight	$\theta$	0.7	0.0155
Auxiliary model parameter	Symbol	Target	Simulated
Effect of uni. divorce on savings in CP	$\phi_1$	13.54 percent	13.43 percent
Effect of uni. divorce on participation in CP	$\phi_2$	−6.93 pcpt	−6.86 pcpt
Baseline participation rate in CP	$\phi_3$	55.97 percent	56.03 percent
Baseline divorce probability in CP	$\phi_4$	19.44 percent	19.44 percent

*Notes:* Parameters of the dynamic model  $\{\sigma, \psi, \theta\}$  estimated by indirect inference. The parameters of the auxiliary model are  $\{\phi_1, \phi_2, \phi_3, \phi_4\}$ .

# Simulation: A

- **Effects from mutual to unilateral**  
in *community* (50-50) regime

# Simulation: A

- **Effects from mutual to unilateral**  
in *community* (50-50) regime

- **Mutual:**

$$\theta = 0.7$$

consumption share of women: 39%

- **Unilateral:**

19% re-bargained their power

consumption share of women: 41%

labor supply: ↓ 6.86pp.

# Simulation: B

## • Effects of property division regimes

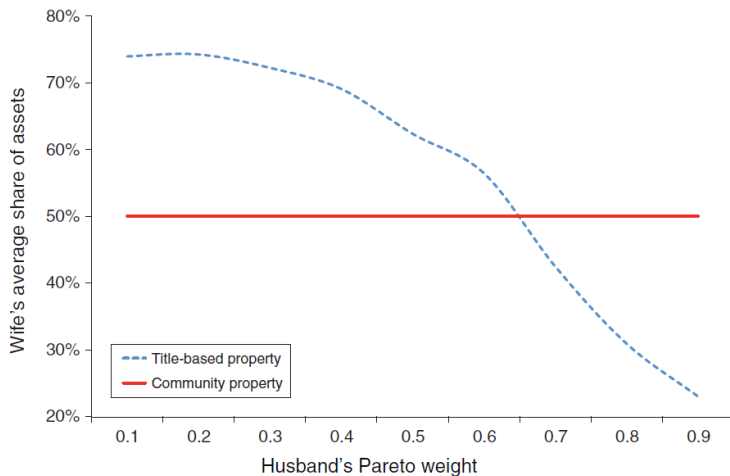


FIGURE 4. PROPERTY DIVISION REGIME AND HUSBAND'S PARETO WEIGHT



# Simulation: C

## ● Divorce laws and consumption insurance

TABLE 6—DIVORCE LAWS AND CONSUMPTION INSURANCE AGAINST INCOME SHOCKS

Regimes	Married couples			
	Men		Women	
	Mutual consent	Unilateral divorce	Mutual consent	Unilateral divorce
Title-based	0.372	0.410	0.233	0.207
Community property	0.371	0.390	0.235	0.192
Equitable distribution	0.375	0.384	0.238	0.197

Notes: The table reports the estimates of coefficients  $\mu^j$  obtained from the regressions

$$\Delta \log(c_{it}^H) = \kappa^H + \mu^H \Delta \log(y_{it}^H) + \nu^{Hj} \mathbf{X}_{it}^j + e_{it}^H \quad \text{and}$$

$$\Delta \log(c_{it}^W) = \kappa^W + \mu^W \Delta \log(y_{it}^W) + \nu^{Wj} \mathbf{X}_{it}^j + e_{it}^W$$

in each legal regime, where  $X_{it}^j$  are spouse  $j$ 's age and age squared. The coefficients are estimated on data obtained from simulating the model using the preset parameters and the estimated parameters for a sample of simulated households. I account for the differential selection of couples out of marriage because of divorce laws by simulating income and consumption profiles using only the policy functions of married couples.

1. Men have more consumption insurance under mutual (lower pass-through of income shocks)
2. Property division does not matter in mutual (col 1 + 3 constant across rows)

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# Our simple model

- **Same model as last time** (see notebook)
- We cannot model the same counterfactuals as Alessandra Voena in our simple model.  
But we can **change wealth distribution upon divorce**.

# Our simple model

- **Same model as last time** (see notebook)
- We cannot model the same counterfactuals as Alessandra Voena in our simple model.  
But we can **change wealth distribution upon divorce**.
- Now,  $\kappa_j$  denotes the share of wealth to member  $j$ ,  $\kappa_1 + \kappa_2 = 1$ .

$$\begin{aligned} V_{j,t}^m(a_{t-1}, \psi_t, \mu_{t-1}) &= D_t^* V_{j,t}^{m \rightarrow s}(\kappa_j a_{t-1}, \psi_t, \mu_{t-1}) \\ &\quad + (1 - D_t^*) V_{j,t}^{m \rightarrow m}(a_{t-1}, \psi_t, \mu_{t-1}) \end{aligned}$$

# Next Time

- **Next time:**

Marriage and Divorce (in Denmark).

- **Literature:**

Bruze, Svarer and Weiss (2015): "The Dynamics of Marriage and Divorce"

[full commitment]

- **Read** before lecture

- **Reading guide:**

Section 1: Introduction + overview. Read.

Section 2: Data. Skim.

Section 3: Marriage patterns. Read (many figures).

Section 4: Model. Key, get the idea.

Section 5: Estimation. Skim.

Section 6: Results. Read.

# References I

BRUZE, G., M. SVARER AND Y. WEISS (2015): “The Dynamics of Marriage and Divorce,” *Journal of Labor Economics*, 33(1), 123–170.

VOENA, A. (2015): “Yours, Mine, and Ours: Do Divorce Laws Affect the Intertemporal Behavior of Married Couples?,” *American Economic Review*, 105(8), 2295–2332.