Comments on the differences between the three versions of Fig. 15

1. Controlling for Year Effects: This is the baseline specification in Heathcote et. al (2009). We see that variation in wages is gradually increasing over the life cycle, variation in hours decreases at prime working age, and subsequently increases. Variation in household income follows similar dynamics as variation in hours. Not surprisingly, variation in equivalized household income drops sharply in the late 30s of the life cycle as people adjust the number of children they have based on income.
2. Age Profile Without Controls: Generally, the patterns above hold true. This is not surprising as there are always individuals of a given age across time, and the year effects are thus averaged out. However, the estimates should be much noisier, and the data confirms this.
3. Controlling for Cohort Effects: The graphs are now much smoother. However, notably the sharp drop in equivalized household earnings in the late 30s of the age profile is missing. This possibly arises because given a cohort, cultural norms play a decisive role in determining the number of children to have. Individuals within a cohort thus do not adjust the number of children to have based on income, and the variances of both household income and equivalized household income follow similar dynamics through the life cycle.