

"Home Production with Time to Consume."

The abstract is as follows:

We build a home production model where consumers choose how to spend their off-market time using market consumption purchases. Heterogeneity in the labor intensities of different home production activities governs the degree to which income changes or relative price changes affect the composition of market consumption expenditure. We demonstrate that failing to account for time use complementarities with market purchases implies that the value of the skills of homemakers engaging in home production is zero. In a quantitative exercise on aggregate expenditure data, we use the model to estimate the degree to which relative price changes versus wage growth have contributed to the rise in the services share of U.S. expenditure since 1948. Our findings suggest that structural change is mostly driven by supply-side factors affecting relative prices rather than consumers having increasing preferences for services as average wages rise. Further, we demonstrate that our non-homothetic preference structure based on home production admits an aggregate representation. Robustness tests show that empirical estimates on aggregate expenditure data are not significantly affected by aggregation bias.