

# Labor Supply Explained Simply



In the stylized version of the 1970s presented in lecture, in which married men mostly did formal work and married women mostly didn't, was there a large or small substitution effect of wages on women's labor supply in comparison to men's labor supply?

☒ There was a relatively large substitution effect of wages on women's labor supply

☐ There was a relatively small substitution effect of wages on women's labor supply

☐ There was a no substitution effect of wages on women's labor supply

☐ The relative size of the substitution effect of wages on women's labor supply was ambiguous

☐ None of the above



## Explanation

Women had more flexibility in their social roles. They could do formal work, or do housework and childcare at home. Men, however, did not typically do as much housework and childcare, so they had less flexibility.

You are an expert in microeconomics.

I have a problem with the solution as shown in the picture. However, I feel the solution explanations are hard to digest.

I still feel unfamiliar with the core concepts behind it and with some terms.

Please help to re-explain it in a more beginner-friendly style and include some humor.



Let me break this down for you in a beginner-friendly way—and let's add a little humor to keep it fun!

## The Question:

It's asking whether women's decision to work (labor supply) in the 1970s was more influenced by changes in wages compared to men.

## The Answer:

Yes, women's labor supply had a **big substitution effect**. Why? Let's dive in!

## What's a "Substitution Effect" Anyway?

Imagine you're offered \$50 to babysit for an hour instead of staying home and binge-watching TV. Suddenly, babysitting looks pretty tempting! The substitution effect means you might "substitute" watching TV (leisure) for working because the pay (wage) got more attractive.

## Why Did Women Have a Larger Substitution Effect?

In the 1970s, women's roles were pretty flexible:

- **Option A:** Work outside the home for wages.
- **Option B:** Stay home, take care of the kids, and cook dinner.

If wages went up, **Option A** became much more attractive. Women could say, "Why stay home for free when I can make some good money?" This flexibility meant women could easily adjust and join the

workforce when wages improved.

## What About Men?

Men in that era were mostly locked into the “breadwinner” role. Society didn’t really expect them to say, “I’ll stay home and fold laundry instead of going to the office.” So, even if wages went up, men’s labor supply didn’t change much. They already had to work, wage hike or not!

## Funny Take:

Think of it this way: women were like free agents in a sports league. If a better offer (higher wage) came along, they could switch teams (from housework to formal work). Men, on the other hand, were already signed into ironclad contracts with their teams—no flexibility!

## Summary:

- Women could choose between working for pay and unpaid housework, so wage changes had a **big impact** on their decisions.
- Men didn’t have much choice—whether wages changed or not, they were expected to work outside the home.

Hope this explanation clears things up! Let me know if you want more analogies or if you’d like to explore another aspect of this. 😊



In the stylized version of the 1970s presented in lecture, in which married men mostly did formal work and married women mostly didn't, was there a relatively large or small income effect of wages on women's labor supply?

- ☐ There was a relatively large income effect of wages on women's labor supply
- ☒ There was a relatively small income effect of wages on women's labor supply
- ☐ There was a no income effect of wages on women's labor supply
- ☐ The relative size of the income effect of wages on women's labor supply was ambiguous
- ☐ None of the above



Explanation

Women simply worked fewer formal hours, so their income was less responsive to wage shifts.

Now please help to explain the problem and solution shown in this picture.



Let me re-explain the problem and solution in a more beginner-friendly way, with a touch of humor to make it easier to understand!

## The Question:

This one is about the **income effect** of wages on married women’s labor supply in the 1970s. Did changes in wages have a big or small effect on how much they worked?

## The Answer:

The income effect was **relatively small** for married women.

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## What's an Income Effect?

Imagine you win a lottery (yay!) or get a huge raise at work. Now that you have more money, you might think, "Hey, I don't need to work so many hours anymore! I can afford to relax!" That's the income effect—it's the idea that earning more money might lead you to work less because you feel financially secure.

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## Why Was the Income Effect Small for Women in the 1970s?

Here's why:

- **Fewer Work Hours:** Married women didn't typically work as many hours outside the home as men. Many were part-time workers or stayed home, focusing on household duties.
  - **Less Income to Begin With:** Because they worked fewer hours or earned less on average, any increase in wages didn't make a big difference in their overall sense of financial security. So, they didn't significantly cut back on work.
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## What About Men?

Men usually worked full-time jobs, so wage increases often created a stronger income effect for them. If their pay went up, they might say, "Cool, I'm earning more now—time to take it easy!" But for women, the impact was less noticeable because their starting work hours were already low.

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## Funny Take:

Think of it this way: if you give someone who only works a few hours a week a raise, they'll think, "Oh, nice! More money!" but keep working about the same. But if you give a full-time worker a raise, they might say, "Time for some vacation days—I deserve it!"

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## Summary:

- The income effect for married women in the 1970s was **small** because they worked fewer formal hours, so wage increases didn't change their work decisions much.
  - In contrast, men's work patterns showed a stronger income effect because they worked more hours and their income changes had a bigger impact.
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I hope this clears things up and brings a smile! Let me know if you'd like further examples or clarifications. 😊



What happened to the elasticities of male and female labor supply since the 1970s?

- ☐ The female labor elasticity has converged upwards to the male labor elasticity
- ☐ The male labor elasticity has converged downwards to the female labor elasticity
- ☐ They have converged to a value between the female and male labor elasticities
- ☐ They have not changed significantly
- ☒ None of the above



**Explanation**  
The female labor elasticity has converged **DOWNWARDS** to the male labor elasticity. Both men and women now have low labor elasticity.

Now please help with this problem and solution.



Let's break this down in simple terms and make it relatable with some humor!

## The Question:

It's asking about what happened to the **labor elasticity** of men and women since the 1970s. In simpler terms, how sensitive are men and women now to changes in wages when deciding how much to work? And have those sensitivities (elasticities) converged in any particular direction?

## The Answer:

**None of the above.**

Here's why: The explanation says that **female labor elasticity has decreased (gone downward)** and converged with male labor elasticity. Now, both men and women have **low labor elasticity**, meaning wage changes don't affect their work decisions much anymore.

## What's "Labor Elasticity" Again?

Labor elasticity measures how much people change their work hours when wages change:

- **High elasticity:** People are like, "Oh, a pay raise? I'll work more!" or "A pay cut? Time to take it easy."
- **Low elasticity:** People are like, "Meh, I'll keep working the same amount no matter what."

## What Changed Over Time?

Back in the 1970s:

- **Women had high labor elasticity.** Since many weren't in the workforce full-time, a rise in wages would often encourage them to work more. They were flexible.
- **Men had low labor elasticity.** Most were already working full-time, so changes in wages didn't impact their work decisions much.

Fast forward to now:

- **Women's elasticity decreased.** Over the decades, more women entered the workforce in full-time roles, similar to men. This means wage changes now don't affect their labor supply as much as they used to.
- **Men's elasticity stayed low.** They've always been less responsive to wage changes.

So, female elasticity dropped and is now **similar to male elasticity**. Both are pretty low.

## Funny Take:

Think of it like this:

- In the 1970s, women were like, "Oh, a raise? Sure, I'll work more hours!" Men, meanwhile, were like, "A raise? Cool, but I'm already at max capacity."
- Nowadays, women have joined the full-time grind, and both genders are now saying, "Wages up or down, I still gotta keep working to pay the bills."

## Summary:

The correct insight is:

- Female labor elasticity has decreased over time, converging downward to male labor elasticity.
- Both genders now have **low elasticity**, meaning wage changes don't significantly impact their work hours.

Hope this clears it up! Let me know if you'd like further clarification or more examples! 😊



What happens to the labor supply of winners of large lotteries?

☐ The labor supply of winners of large lotteries goes way up

☐ The labor supply of winners of large lotteries goes slightly up

☐ The labor supply of winners of large lotteries is unchanged

☒ The labor supply of winners of large lotteries goes slightly down

☐ The labor supply of winners of large lotteries goes way down

☐ None of the above

✓

Explanation  
Winners who earned about \$55,000/yr lotteries decreased their labor supply, but only by \$1,900/yr.

Now please help to re-explain this.



Let's simplify and make this concept fun to understand!

## The Question:

What happens to people's work hours (labor supply) when they win **big money** in a lottery?

## The Answer:

Their labor supply goes **slightly down**—just a little. They work fewer hours, but not drastically fewer.

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## Why Does This Happen?

It's because of the **income effect**. Winning the lottery makes people feel financially secure, so they think, "Hey, I don't need to work as hard anymore!" However, most people still continue to work, just a bit less.

For example:

- If someone wins **\$55,000/year**, they cut back their work hours, but not by much—on average, only about **\$1,900/year worth of labor**. So, they reduce their work hours slightly, but they don't quit their job entirely.
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## Why Only a Small Decrease?

- Winning the lottery doesn't mean people stop working altogether. Most winners enjoy the sense of purpose, structure, or social benefits of working.
  - The amount they win isn't **life-changing enough** to retire early for most people—it just gives them a little more freedom.
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## Funny Take:

Think of it like this:

- Winning the lottery is like someone handing you a comfy pillow and saying, "You can rest now!" Most people will say, "Thanks! I'll take a short break, but I'll still show up to work—I need something to do and bills to pay!"
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## Summary:

- Lottery winners reduce their work hours **a bit** because they feel less financial pressure, thanks to the extra money.
- But the change is **small**, as most winners still value working for various reasons.

Hope this clears things up! 😊 Let me know if you need more examples!