

WWZ research seminar

Tuesday, October 09, 2018, 12:30 – 13:45 pm, WWZ, HG, S 15

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"Flexible Work Arrangements and Precautionary Behavior: Theory and Experimental Evidence"

Abstract

We uncover a behavioral strategy that makes intertemporal substitution possible even if saving is not possible: individuals may determine the average wage by allocating a fixed amount of work time when wages are exogenous. In an extension of the standard consumption and labor supply model, we show that allocation of work time and saving are perfect substitutes. In order to test whether this link between savings and distribution of work time exists, we conduct real-effort laboratory experiments in which the only reason to substitute intertemporally is wage risk. In four treatments, subjects can either save, allocate time, engage in both, or do neither. The results show that both precautionary saving and precautionary work time allocation exist for at least 82% and 40%, respectively, and that around 32% of the subjects regard these channels as substitutes as was theoretically predicted. This implies that the increasing prevalence of flexible work arrangements may have important effects on savings.