

## Lecture 1 – Background and empirical ‘facts’

### **Why economics of the fam?**

- Fams are econ units → share consumption, coord work activities, accumulate wealth, invest in kids
- Main econ decision is timing of marriage as means to control fertility
- Smith: need more than subsistence wage for fam to grow
- Malthus: neg consequences if pop grows too fast (increase in pop = decrease in w)
- Becker (1991) provided unified econ approach to fam
  - How are decisions made? Fam allocations of time/goods → division of labour
  - Importance of marriage market when there's comp for spouses

### **Defining the family**

- ABS: 2 or more ppl related by blood, marriage (registered or de facto), adoption, step or fostering
  - Usually live together in same HH
  - At least 1 person 15 yrs old
  - HH may contain more than 1 fam
  - Based on residence → separated parent living alone w/ kid elsewhere not a fam
  - HHs of unrelated adults aren't fams
  - May or may not have dependents (residential and financial)

### *Trends in family structure*

- Increase in proportion of couple fams w/o kids
  - Female empowerment (increase OC of women's time, changing aspirations, birth control)
  - Delayed marriage/rships
  - Increased cost of raising child
- Increased % of intact fams (good bc better outcomes for kids)
- Reduction in proportion of all types of fams w/ dependent kids
- Little change in living arrangements of kids
- Few HHs containing more than 1 fam

### *Trends in marriage*

- Fluctuations in crude marriage rate, but overall decline
  - Rship btwn econ performance (falls) and social unrest (increase)
  - Decline w/ improving women's status (tech/contraception, edu, social norms)
  - Cohabitation becoming more acceptable (esp prior to marriage)
    - Hard to define in Aus bc de facto after 2 yrs of living together
    - But has become predominant form of rship
    - Diff in experience in diff countries (depends on legal rights)
    - Increase in living apart together

### **Divorce**

- Sharp rise in 70s (no fault divorce, less social/religious stigma, general societal changes)
- Median age has increased (but if duration of marriage is stable, increase in marriage age does this)
  - If duration isn't stable, assortative matching likely to play role (takes longer bc more commitment/investment in rship)
    - Assortative matching: Explains that those w/ similar characteristics (age, race, edu) marry each other

### **Fertility**

- Baby boom followed by steep decline in 70s (contraceptives, increased age of marriage)
- 1.8 = replacement level of fertility to maintain pop (general trend is 2.1)
  - If too low, risk stability of econ (harder to maintain growth)
  - Impacts age distribution (aging pop)

- Decreasing except for ppl aged 30 – 39
- Ideal fertility: wanted # of kids vs actual # of kids
  - As edu increases, ideal # of kids decreases

## Week 2 – The family as an economic unit: theories

### Why live as a family?

- Neoclassical analysis of division of labour
  - Fam unit optimizes by selecting bundle of commodities that maximises U
  - 2 types of good: market and home
  - Each member allocates time btwn production of market and home goods
    - Work for wage (to buy market good) or work at home (to produce home goods)
    - All individuals have same amt of time, but diff tradeoffs (wages, skills etc)
  - Maximise output/U subject to BCs
- AA: capability to produce more of a given product using less of given resource
- CA: capability to produce G/S at lower MC and OC cost over another
  - E.g. home many home goods you give up to produce 1 more market good

	A	B
Home	5	10
Market	10	5

- $OC_M$  for A:  $10M = 5H$ ,  $1M = \frac{1}{2}H \rightarrow OC_M^A = \frac{1}{2}$
- $OC_M$  for B:  $5M = 10H$ ,  $1M = 2H \rightarrow OC_M^B = 2$
- $OC_H$  for A:  $5H = 10M$ ,  $1H = 2M \rightarrow OC_H^A = 2$
- $OC_H$  for B:  $10H = 5M$ ,  $1H = \frac{1}{2}M \rightarrow OC_H^B = \frac{1}{2}$

A has OC in market goods

B has OC in home goods

### Example of gains from trade

- When A and B produce separately  $\rightarrow \rightarrow \rightarrow$
- If A and B reallocate time to increase overall value of output, they will spend all 8 hours in what they have CA in

	M	H	Total
A	8 x \$10	0 x \$5	\$80
B	0 x \$15	8 x \$15	\$120
Total	\$80	\$120	\$200

	Market Goods	Home Goods	Total
Separate Production			
A	6 hrs x \$10 \$60	2hrs x \$5 \$10	\$70
B	7 hrs x \$15 \$105	1hr x \$15 \$15	\$120
Total	\$165	\$25	\$190

- Total output increases from \$190 to \$200  $\rightarrow$  output in specialisation is higher than in separate production
- Gains from specialisation = \$10

### Production possibilities frontier (maps all possible combos of G/S a person can produce)

- For individual 1:  $OC_M$ :  $80M = 30H \rightarrow 0.375H$
- For individual 2:  $OC_M$ :  $50M = 90H \rightarrow 1.8H$
- If the two individuals combine production and produce w/in 1 HH, they will face an expanded PPF (joint PPF)
- To draw joint PPF:
  - $M_1 + M_2$  on y-axis,  $H_1 + H_2$  on x-axis
  - If complete specialisation, produce at Y

