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
 - o 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
 - o 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
 - o 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
 - o 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
 - Diffs 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
 - o Fam unit optimizes by selecting bundle of commodities that maximises U
 - o 2 types of god: 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
 - o E.g. home many home goods you give up to produce 1 more market good

	Α	В
Home	5	10
Market	10	5

• OC _M for A: 10M = 5H, 1M = $\frac{1}{2}$ H \rightarrow OC _M ^A =	- /2
--	------

• OCM for B: 5M = 10H. 1M = 2 H
$$\rightarrow$$
 OCM^B =

• OC_M for B: 5M = 10H, 1M = 2 H
$$\rightarrow$$
 OC_M^B = 2
• OC_H for A: 5H = 10M, 1H = 2 M \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

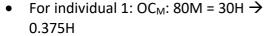
- When A and B produce separately → → →
- If A and B reallocate time to increase overall value of output, they will spend all 8 hours in what they have CA in

	М	Н	Total	
Α	8 x \$10	0 x \$5	\$80	
В	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			
В	7 hrs x \$15 \$105	1hr x \$15 \$15	\$120			
Total	\$165	\$25	\$190			

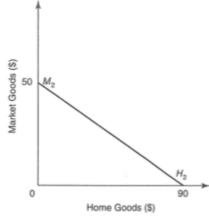
- Total output increases from \$190 to \$200 → output in specialisation is higher than in separate production
- Gains from specialisation = \$10

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



- For individual 2: OC_M: 50M = 90H →
- If the two individuals combine production and produce w/in 1 HH, they will face an expanded PPF (joint PPF)





- To draw joint PPF:
 - \circ M₁ + M₂ on y-axis, H₁ + H₂ on x-axis
 - If complete specialisation, produce at Y