AGGREGATION AND LABOR SUPPLY ELASTICITIES

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Abstract
We outline a formal procedure for deriving the aggregate wage-elasticity of labor supply for a large group of heterogeneous workers who operate under uncertainty. Heterogeneity relates to preferences, income, wealth, and the labor market status. If each workers faces a small, possibly non-uniform wage change, the implied aggregate wage-elasticity can be represented by a closed-form expression. This expression captures an extensive and an intensive margin. We empirically implement the procedure for a dynamic model of individual labor supply and a micro panel of men in Germany from 2000 to 2013. We find that the extensive margin is less time-varying than the intensive margin, and that its size varies with the measure of reservation wages. Self-reported reservation wages render a larger extensive margin than other proxies. The estimated aggregate Frisch wage-elasticity varies between 0.85 and 1.06, and the two margins matter equally strongly for the unbalanced sample. (JEL: C51, E10, J22)

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