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Consumption Time in Household Production: Implications for the Goods-Time Elasticity of Substitution

Ranju Baral, PhD Candidate

Department of Agricultural and Applied Economics

305-A Hutcheson Hall, Virginia Tech, Blacksburg, VA 24061

Email: ranju@vt.edu

George C. Davis, Professor

Department of Agricultural and Applied Economics

214 Hutcheson Hall, Virginia Tech, Blacksburg, VA 24061

Email: georgedavis@vt.edu

Fax: 1-540-231-7417

Phone: 1-540-231-6783

Wen You, Assistant Professor

Department of Agricultural and Applied Economics

321-A Hutcheson Hall, Virginia Tech, Blacksburg, VA 24061

Email: wenyou@vt.edu

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Ranju Baral, George C. Davis and Wen You

Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA 24061



Q: How does consumption time affect the elasticity of substitution (EOS) between goods and time?

A: Consumption time decreases the EOS between goods and time.

Setting

- Meal Production in the home
 - ☐ Two possible definitions of a “meal”
 - “Eating occasion” (includes the consumption time)
 - “Meal production” (excludes the consumption time)
- Two inputs: goods (food items) and time (labor)

Analytical Result

The difference in the “eating” and “meal production” goods-time EOS is shown to depend on the difference in the elasticity of time in food production with respect to the wage rate ($\eta_{tf} < 0$) and the elasticity of time in food consumption with respect to the wage rate ($\eta_{tc} < 0$). Specifically, the goods-time EOS **without** consumption time is

$$\sigma_f = \partial \ln(x_f/t_f) / \partial \ln w = \partial \ln x_f / \partial \ln w - \partial \ln t_f / \partial \ln w = \eta_{xf} - \eta_{tf} \quad (1)$$

and the goods-time EOS **with** consumption time is

$$\sigma_e = \partial \ln(x_f/(t_f+t_c)) / \partial \ln w = \partial \ln x_f / \partial \ln w - \partial \ln (t_f+t_c) / \partial \ln w = \eta_{xf} - [s_f \eta_{tf} + s_c \eta_{tc}] \quad (2)$$

where x_f = expenditure on food; t_f = time in home meal production; t_c = time in meal consumption; w = wage rate; and $s_i = t_i / (t_f + t_c)$ for $i=f, c$;

Subtracting (2) from (1) and a little algebra yields the difference:

$$\sigma_f - \sigma_e = s_c (\eta_{tc} - \eta_{tf})$$

So, if the production time is more elastic than the consumption time with respect to the wage rate ($|\eta_{tc}| < |\eta_{tf}|$) then the goods-time EOS in “meal production” will be greater than that in “eating”.

Empirical Result

- Using an approach similar to Hamermesh (2008), we provide an empirical example with the American Time Use Survey (ATUS) data for 2005-2008 matched to the Current Population Survey (CPS) Food Security Supplements (FSS)
- Hamermesh (2008) found the EOS to be about 0.22 to 0.33 in “eating”. Our results suggests more substitutability if the focus is just “meal production”
- Goods-time EOS in “meal production” is about 60% greater than in “eating”

Elasticity of Substitution	Reference- week Food Expenditure	Usual Food Expenditure
With consumption time	0.28 (0.13)	0.31 (0.11)
Without consumption time	0.48 (0.16)	0.49 (0.15)
(N=1872)		

Conclusion

The goods-time EOS is greater than originally thought when we exclude the consumption time from the household production.

Reference

Hamermesh, D. S. (2008). “Direct Estimates of Household Production.” *Economics Letters*. Vol. 98:31-34.