Marital Matching, Economies of Scale and Intrahousehold Allocations

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Abstract

We propose a novel structural method to empirically identify economies of scale in household consumption. We assume collective households with consumption technologies that define the public and private nature of expenditures through Barten scales. Our method recovers the technology by solely exploiting preference information revealed by household consumption behavior. The method imposes no parametric structure on household decision processes, accounts for unobserved preference heterogeneity across individuals in different households, and requires only a single consumption observation per household. Our main identifying assumption is that the observed marital matchings are stable. We apply our method to data drawn from the US Panel Study of Income Dynamics (PSID), for which we assume that similar households (in terms of observed characteristics like age or region of residence) operate on the same marriage market and are characterized by a homogeneous consumption technology. This application shows that our method yields informative results on the nature of scale economies and intrahousehold allocation patterns. In addition, it allows us to define individual compensation schemes required to preserve the same consumption level in case of marriage dissolution or spousal death.

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