International Journal for research in Economics

Published By:
Green Publications Services Private LTD.

Volume 01 Issue 03 September 2026
ISSN: XXXX-XXXX
DOI: xyzzzz

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International Journal for Research in Economics

Household Labor Supply Responses to Wage Shocks: Evidence on Work Adjustment and Consumption Dynamics

Article History:
Article Type: Research

Received Date: 30/02/2026 **Revised Date: 26/07/2026**
Acceptance Date: 07/09/2026 **Published Date: 25/09/2026**

Abstract

Labor force participation in the household depends on the wage rate, job opportunities, and economic developments, which can lead to changes in labor supply and consumption spending. The study used a quantitative, longitudinal research design to explore the association between wage changes, household labor supply changes, and consumption behavior. Secondary data of 28,442 household-year observations from 5,797 households from 11 survey waves from 1999 to 2019 were analysed. Descriptive statistics, Pearson correlation, and linear regression were used to analyse wage changes, individual and partner working hours and household expenditure. The results showed negative correlation between the wage changes and the individual working hour adjustments ($r = -0.240$) and partner working hour adjustments ($r = -0.272$). Average changes in number of working hours were 213.5 hours among households with wage decreases exceeding 10 percent and -222.6 hours among households with wage increases exceeding 10 percent. Significant negative associations with wage changes were found for working hours ($p<0.001$) in the regression analysis. In contrast, personal and partnership wages showed weak positive relationships with household consumption expenditure (both $p = 0.022$ and 0.002, respectively). These results indicate variations in the labor supply and the consumption adjustment to changes in wages. But the nature of the observational design and their mechanical relationships with the calculated wages and working hours constrain causal interpretations. Additional studies are recommended to validate evidence for household economic resilience policies based on wage shocks identified independently.

Keywords: Household Labor Supply; Wage Shocks; Working-Hour Adjustments; Household Consumption; Economic Resilience.

1. Introduction

Household labor supply is an important factor in the economic stability and employment participation and in the household financial well-being. Wage changes have an impact on how people spend their time on paid work, unpaid work, and leisure. The labour force participation and working hours are determined by considerations of compensation, employment opportunities, and economic conditions, which affect labour supply decisions (Aji & Akbardin, 2024). Real earnings and household purchasing power may also be impacted by inflation and shifts in the labor market, adding more pressure on employment decisions (Amiti et al., 2024). The distribution of earnings is also shaped by wage compression, as well as shifts in labor market competition, especially at the bottom end of the spectrum (Autor et al., 2023). All of this underscores the need to grasp the responses of households to changes in wages.

Wage shocks can occur either due to an unforeseen change in employment, economic disruptions or inflationary effects or a shift in labor market demand. Inflation and purchasing power of households can be impacted by macroeconomic disturbances, which can alter labour supply and spending choices (Bernanke & Blanchard, 2024). The ability of workers to react to economic uncertainty also depends on labor market structures and employment conditions—where formal employment opportunities and income protection are weak, workers are less likely to be effective in coping with economic uncertainty (Breza & Kaur, 2025). Other factors that influence household labor force participation choices involve interactions between family members, with individual labor force participation choices often depending on family resources and responsibilities (Chiappori et al., 2022). As a result, wage changes can lead to varying responses in terms of changes in working hours across household members depending on their employment status, ability to earn and financial responsibilities.

Households have different coping mechanisms to deal with changes in incomes and ensure economic stability. This can be through longer working hours, changes to work participation, spending reductions or other sources of financial support. The adjustment policies and nature of the shock influence household responses to an income shock (Colarieti et al., 2024). Social protection measures can also contribute to shaping household employment choices by offering financial assistance during times of income insecurity (Coyne et al., 2024). In addition to its impact on labor supply, a change in wages can impact consumption since households' current consumption is dependent on their current resources, but also on their future expectations of their income. The

relationship between income shocks and consumption is different across households and depends on financial status (Crawley & Theloudis, 2024).

Wage changes are also tied to the employment adjustment due to other macro-economic factors. Monetary policy's effects on labor demand and labor supply can be achieved by changing the economic activity and employment incentives (Graves et al., 2023). The willingness to change jobs, work longer or stay in work may depend on workers' expectations about the growth of their wages and the risk of losing their job (Koşar & Van der Klaauw, 2025). Household adjustment to income shocks may thus vary depending on financial resources, labor market opportunities, and other factors, resulting in different adjustments (Krueger et al., 2023). Results also show that shocks have an impact on consumption expenditure and can trigger livelihood diversification as a means to ensure household welfare at the rural household level (Nguyen et al., 2023).

While numerous studies have studied labour supply and income uncertainty and how they affect the household consumption, it is important to understand how they are adjusting in combination. Gender gaps in employment opportunities and family duties can help to explain the differential labor supply response at the family level (Olivetti et al., 2024). Taking a detailed look at wage shifts together with the number of hours worked by both the individual and the partner and the household's level of expenditure can give a more complete picture of the household's economic adjustments. Hence, this study aims at analyzing the relationship between wage changes, hours worked and consumption behavior from a longitudinal secondary household survey data and considering the relevant socioeconomic and demographic aspects.

Research Objectives

- To examine the relationship between wage changes and household labor supply, particularly adjustments in individual and partner working hours.
- To assess the association between wage fluctuations and household consumption expenditure and income adjustments.
- To investigate the influence of household socioeconomic and demographic characteristics on labor supply and consumption responses to wage changes.

2. Methodology

2.1 Research Design

The current study was a quantitative longitudinal study that utilized secondary household-level data to investigate the link between wage changes, labor supply changes and household

consumption changes. The study aimed at determining effects of working hours of individuals and partners due to wage changes and their relationship with household expenditures. A longitudinal design was used to provide information on shifts in economic behaviour over time in the survey. Household socioeconomic factors were considered in the analysis to appreciate the variation in labour supply and adjustment of consumption. Since the study was based on observation, the results were analysed as statistical relationship and not causal relationship.

2.2 Data Source and Study Population

This study was conducted using the secondary data obtained from the replication package Commitment and the Dynamics of Household Labour Supply, which is accessible through Zenodo (Record 12571717) (Theloudis et al., 2024). The data used to create the processed information come from the Panel Study of Income Dynamics (PSID), a longitudinal household survey conducted in the United States, and the consumer price index information. There were a total of 11 survey waves (biennial) for which data was available (1999 to 2019). The processed file had 28,442 household-year observations with 5,797 different household panel identifiers and 46 variables. The study population included households that had information on individual and partner employment characteristics, wages, income and expenditure and demographic factors. Observations with missing data were excluded from individual analyses as needed but included in other statistical analyses.

2.3 Study Variables

The main independent variables were individual wage rates (wage), partner wage rates (w_wage) and changes in these variables between survey waves. In addition to individual annual working hours (hours), partner annual working hours (w_hours) and household consumption expenditure (exp) were also dependent variables. As other economic indicators, employment earnings (earnings and w_earnings) and total family income (faminc) were considered. Relevant explanatory or control variables were household wealth (wealth), age, education, number of children (numch) and family composition (numfu), geographical region, and survey year. The following measures were chosen to test the association of household economic situations with discrepancies in labor supply and consumption activities.

2.4 Data Preparation and Processing

The processed Stata file (sample_couples.dta) was used for the analysis. Data preparation included analysis of the format of the variables, the identification of missing observations and the

consistency of the household identifiers across the survey waves. To aid in comparisons between observed periods, records were sorted by household and survey year. Wage and working hours and household spending changes were computed if enough data were available. To make data comparable across years, monetary data were adjusted for inflation using the available consumer price index. Only analyses that required missing, invalid or unsuitable values excluded the observations. The extreme observations were identified and the suitability of the continuous variables for the statistical analysis was evaluated by carrying out descriptive checks.

2.5 Measurement of Wage Changes and Household Adjustments

Household demographic characteristics and economic variables were summarized using descriptive statistics. Means and standard deviations were used for continuous variables and frequencies and percentages for categorical variables. Pearson correlation analysis was employed to explore the relationship between wage changes, working-hour changes, household income, wealth and consumption expenditure. Paired t-tests were used to compare repeated observations within the same households, when the assumptions of paired t-tests were met. To address these associations, simple linear regression models were employed to assess wage changes and adjustment in labor supply or consumption. Household-level clustering was taken into consideration when calculating standard errors, where repeated household observations were used. Survey year effects and appropriate demographic characteristics were added when warranted. The statistical significance was set at $p < 0.05$, with results reported in the form of coefficients, associated p values and appropriate statistical measures of uncertainty.

2.6 Statistical Analysis

Household demographic characteristics and economic variables were summarized using descriptive statistics. Means and standard deviations were used for continuous variables and frequencies and percentages for categorical variables. Pearson correlation analysis was employed to explore the relationship between wage changes, working-hour changes, household income, wealth and consumption expenditure. Paired t-tests were used to compare repeated observations within the same households, when the assumptions of paired t-tests were met. To address these associations, simple linear regression models were employed to assess wage changes and adjustment in labor supply or consumption. Household-level clustering was taken into consideration when calculating standard errors, where repeated household observations were used. Survey year effects and appropriate demographic characteristics were added when warranted. The

statistical significance was set at $p < 0.05$, with results reported in the form of coefficients, associated p values and appropriate statistical measures of uncertainty.

2.7 Ethical Considerations

The study relied exclusively on secondary research data previously collected and available via a publicly available replication package. No direct contact with human participants, recruitment or further collection of personal information was made. Therefore, the analysis was performed on the processed research file without trying to identify individual households or participants. Data were used in academic research, with proper attribution of the original investigators and data providers. Since no new human participant data were collected, participant consent was not sought for this secondary analysis. When interpreting and reporting the findings, the conditions of data use, as well as institutional requirements, have been considered if applicable.

3. Results

The study used 28,442 observations of household-years from 5,797 households across 11 biennial survey waves from 1999 to 2019. Individuals' and partners' wages and annual working hours, employment earnings, household expenditure, and socioeconomic characteristics were analysed. For the longitudinal comparisons, 22,185 consecutive two-year household observations were available, with 19,905 observations of valid percentage changes in individual wages. Results are displayed in five tables and four figures on descriptive characteristics, wage changes, labor supply adjustments, consumption dynamics, correlations and regression analysis.

3.1 Demographic and Socioeconomic Characteristics

Demographic characteristics of the study population are shown in Table 1. The mean age of the individual was 43.02 years and of partners, 41.21 years. The average number of years in school completed by the individuals and their partners was around 14 years. The average number of children and family members per household were 1.07 and 3.27, respectively. It was found that there was significant variation in the financial resources of the households, with mean family income of 118,964.66 and mean household wealth of 416,839.47 monetary units.

Table 1. Demographic and Socioeconomic Characteristics of the Study Population

Variable	N	Mean ± SD
Individual age (years)	28,442	43.02 ± 11.41
Partner age (years)	28,442	41.21 ± 11.26
Individual education (years)	28,442	14.11 ± 2.25

Partner education (years)	28,442	14.38 ± 2.12
Number of children	28,442	1.07 ± 1.19
Household size	28,442	3.27 ± 1.23
Family income	21,774	118,964.66 ± 106,173.31
Household wealth	28,442	416,839.47 ± 1,699,938.28

3.2 Distribution of Wages, Working Hours, and Household Consumption

The basic statistical data of the main economic variables are given in Table 2. The average wage rate for individuals was 35.64, whereas it was 25.31 for partners. The average work hours per year for individuals were 2,069.14 compared to 1,387.46 for partners. There was considerable variation in the levels of household expenditures with the value of mean household expenditure equal to 42,131.90. Figure 1 also shows wage distributions to give further insight into the relationship between individual and partner wages.

Table 2. Descriptive Statistics of Household Economic Variables

Variable	N	Mean ± SD	Median
Individual wage rate	26,482	35.64 ± 41.72	26.59
Partner wage rate	23,032	25.31 ± 26.05	20.19
Individual annual working hours	28,442	2,069.14 ± 861.50	2,115.00
Partner annual working hours	28,442	1,387.46 ± 924.40	1,680.00
Individual employment earnings	26,482	79,256.89 ± 100,134.98	59,059.79
Partner employment earnings	23,032	43,956.83 ± 43,208.37	35,894.56
Household expenditure	27,482	42,131.90 ± 41,007.12	35,758.52

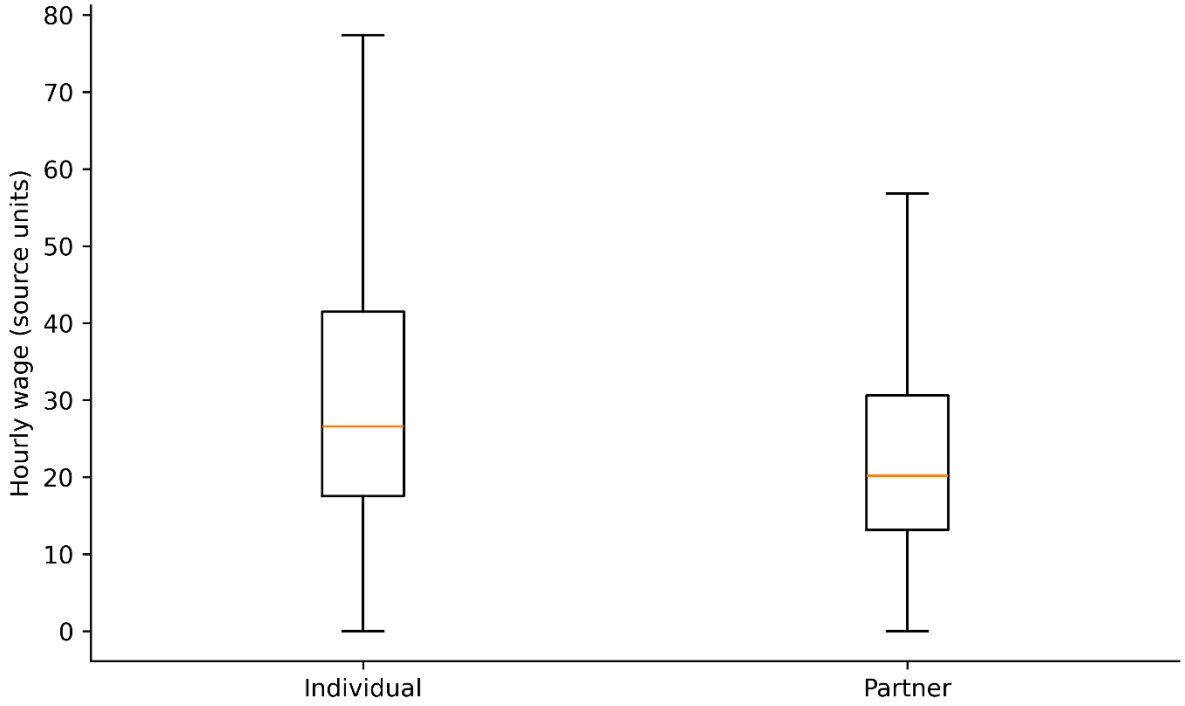

Figure 1. Distribution of Individual and Partner Wage Rates

Figure 1 showing comparative boxplots of individual and partner wage rates. Comparative box plots of hourly wage rates for individuals and partners. Values above the 99th percentile were capped for visualization only; the descriptive statistics in Table 2 use the original values.

3.3 Wage Changes and Household Labor Supply Adjustments

The changes in working hours by wage-change category are shown in Table 3. For observations where wages fell by more than 10%, the average change was an increase of 213.5 individual working hours while the average change for those with the highest wage increase (more than 10%) was a reduction of 222.6 hours. Changes in working hours of partners were less pronounced, from an increase of 14.9 hours among couples in the wage-decrease group to a decrease of 65.0 hours among those in the wage-increase group. These opposing labor supply trends are depicted in figure 2. These are associations and not a reaction to an external wage shock.

Table 3. Working-Hour and Consumption Adjustments Across Wage-Change Categories

Wage-change category	N	Individual hours change	Partner hours change	Expenditure change
Decrease greater than 10%	5,749	+213.5	+14.9	+1,143.1
Change within ±10%	6,124	+8.6	−18.5	+1,509.5
Increase greater than 10%	8,032	−222.6	−65.0	+2,552.5

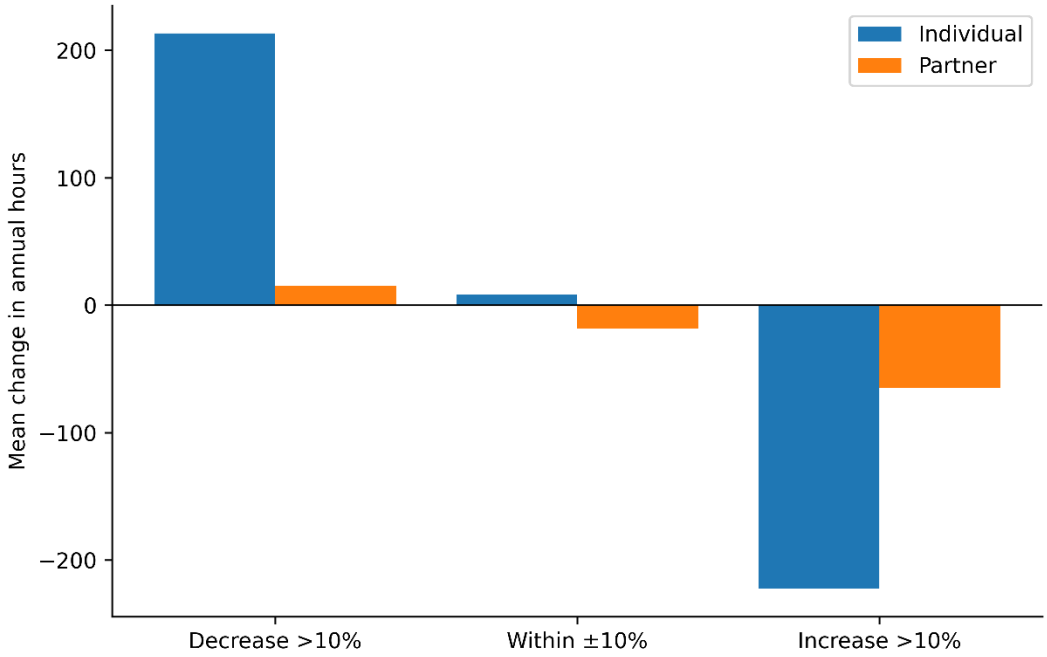

Figure 2. Wage Changes and Working-Hour Adjustments

Mean changes in individual and partner annual working hours across three wage-change categories. Positive values represent increased working hours, while negative values indicate reduced working hours during the observed two-year periods.

3.4 Household Consumption Responses to Wage Changes

In general, all three wage change groups experienced higher household expenditures, though by varying amounts. As indicated in Table 3, the largest average increase in expenditure was observed among households who experienced increase in individual wages by more than 10%, followed by households with relatively stable wages. The smallest mean expenditure increase (1,143.1) was among those households that saw wage losses exceeding 10%. The average expenditure

adjustments (with approximate confidence intervals) are shown in Figure 3. These results suggest that changes in consumption were related to wage changes, but that other economic circumstances of households and overall changes over time also influenced expenditure.

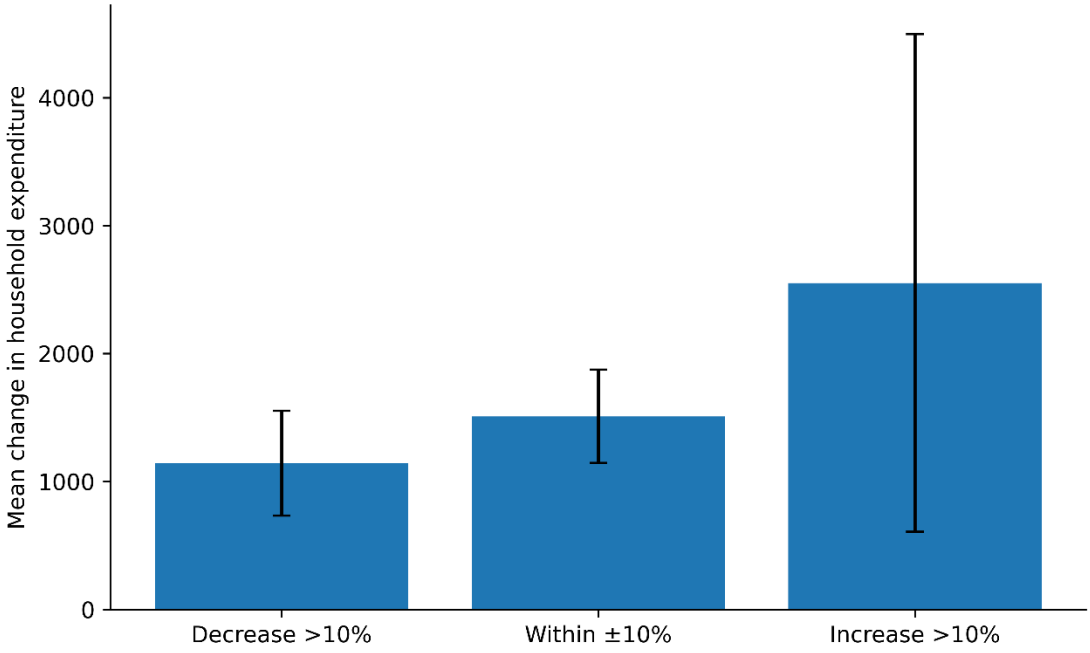

Figure 3. Household Consumption Changes Across Wage-Change Categories

Average change in household expenditure across negative, relatively stable, and positive wage-change groups. Error bars represent approximate 95% confidence intervals calculated from available paired observations, without adjustment for repeated-household dependence.

3.5 Correlation Analysis of Household Economic Variables

Pearson correlation analysis revealed significant relationship between wage change and working hour adjustment as seen in Table 4. Adjusting individual log wages was negatively correlated with adjusting individual working hours ($r = -0.240$). Likewise, the log changes in partners' wages were negatively correlated with changes in their working hours ($r = -0.272$). By contrast, the links between wage changes and household expenditure changes were positive but weak ($r = 0.043$ for individuals, and $r = 0.042$ for partners). These relationships are shown graphically in Figure 4, where the negative wage–hours relationships appear to be stronger than the observed consumption relationships.

Table 4. Correlation Matrix of Wage Changes, Working Hours, and Household Expenditure

Variable	1	2	3	4	5
1. Individual log wage change	1.000				
2. Partner log wage change	0.095	1.000			
3. Individual working-hour change	−0.240	−0.011	1.000		
4. Partner working-hour change	−0.047	−0.272	0.033	1.000	
5. Household log expenditure change	0.043	0.042	0.063	0.031	1.000

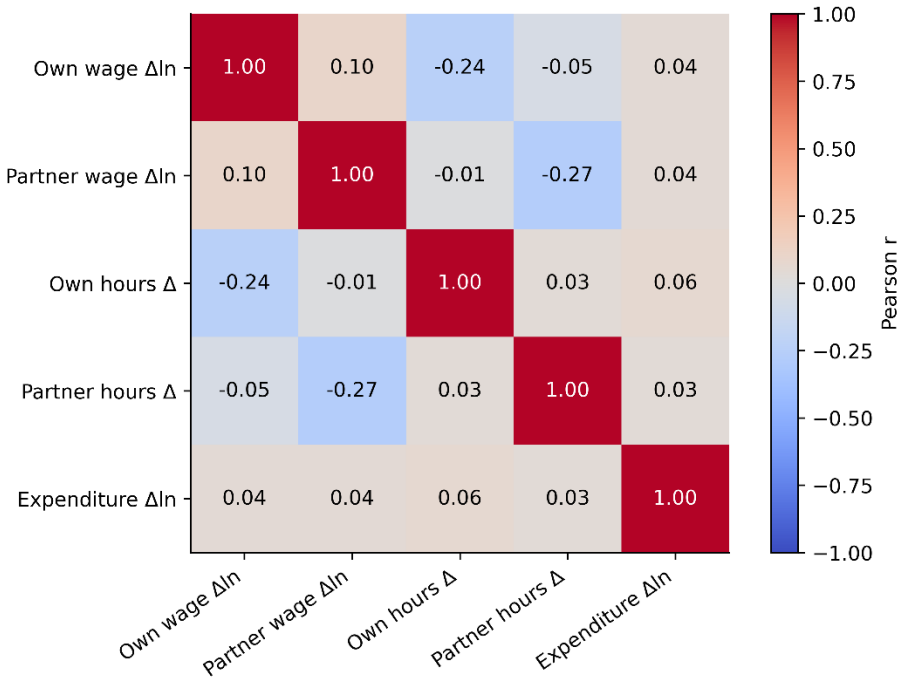

Figure 4. Correlation Heatmap of Household Economic Variables

Heatmap illustrating Pearson correlation coefficients between individual and partner wage changes, working-hour adjustments, and household expenditure changes. The color gradient represents the direction and strength of the relationships, with coefficients displayed within individual cells.

3.6 Regression Analysis of Household Labor Supply and Consumption Adjustments

A total of 13,990 paired observations were fully completed with 3,689 households, and regression analysis was undertaken. The models accounted for differences in individual and partner log wages, age, number of children and survey-year indicators, and standard errors were clustered at the household level. Individual log wage changes were negatively related to individual working-hour changes as shown in Table 5 ($\beta = -261.759$, $p<0.001$). Partner log wage changes were also

negatively related to partner working-hour changes (β = −314.883, p<0.001). In the expenditure model, the log wage change of both individuals and partners were both weakly positively associated with the log expenditure change of the household (β = 0.0118, p = 0.022 and β = 0.0170, p = 0.002, respectively). The models accounted for 5.1-8.5% of the variance in each of the outcomes.

Table 5. Regression Analysis of Wage Changes, Labor Supply, and Household Consumption

Dependent variable	Predictor	β	SE	p-value
Individual working-hour change	Individual log wage change	−261.759	19.015	<0.001
	Partner log wage change	−3.996	11.960	0.738
Partner working-hour change	Individual log wage change	−31.418	11.762	0.008
	Partner log wage change	−314.883	18.365	<0.001
Household log expenditure change	Individual log wage change	0.0118	0.0052	0.022
	Partner log wage change	0.0170	0.0055	0.002

The observed negative wage–hours relationships require caution. If hourly wage rates are calculated from earnings divided by working hours, changes in working hours can mechanically affect the measured wage rate. Therefore, the negative correlations and regression coefficients must not be interpreted as proof that higher wages cause households to work fewer hours.

Similarly, the analysis measures observed wage changes, not independently identified unexpected wage shocks. The results are suitable as an exploratory longitudinal analysis, but stronger causal claims would require additional identification methods.

4. Discussion

The present study explored the linkages between wage changes, changes in household labour force participation and consumption dynamics, based on longitudinal household observations. The results showed that there was a negative correlation between the individual wage changes and the change in working hours (r = −0.240), and there was also a negative correlation between the partners' wage changes and the change in working hours (r = −0.272). An average of 213.5 hours more was worked by each person in a household that lost more than 10% of their wages, while the average worked by each person in a household that gained more than 10% in wages decreased by

222.6 hours. The results indicate that households can adjust their labor force participation in response to economic conditions, but causal relationships cannot be inferred. Technological change may impact employment options and the different ways in which the labor market adjusts (Adão et al., 2024). In the same way, the application of short-time work demonstrates the possibility of modifying working hours during great economic shocks (Albertini et al., 2022).

By regression analysis, there was a significant negative relationship between the individual wage changes and working-hour adjustments ($\beta = -261.759$, $p < 0.001$). Partner wage changes were also linked to a decrease in partner working hours ($\beta = -314.883$, $p<0.001$). These patterns could be due to variations in income needs, job availability, and preferences on how to allocate work. Previous studies on pension wealth changes show that expected pension wealth can affect labour supply choices (Artmann et al., 2023). But also, nonfinancial job attributes and evolving preferences for work (Bagga et al., 2025). Labor supply effects are not necessarily equal across workers, as environmental disruptions may create them (Hoffmann & Rud, 2024). Likewise, uncertain agricultural income can impact employment adjustments and household work decisions (Maitra & Tagat, 2024). However, the negative wage–hours relationships must be interpreted with caution because the calculated hourly wages may be mechanically related to working hours recorded.

Household spending rose for all wage-change categories, with the average rise being largest among households that had wage increases of more than 10%. Both individual wage changes and partner wage changes were weakly positively associated with household expenditure changes: $\beta = 0.0118$ ($p = 0.022$) and $\beta = 0.0170$ ($p = 0.002$), respectively. These results imply that it is possible that consumption changes will not be as much as working hour changes and thus may be consumption smoothing behaviour. The impact of employment changes on household consumption decisions is also underscored by previous studies on unexpected labor market changes (Gardeazabal & Polo-Muro, 2025). Changes in production costs and economic conditions can also affect purchasing power of households, due to supply-side disruptions (Morão, 2025). The lack of energy can cause economic inequalities, which can also impact the consumption possibilities of various household income brackets (Pieroni, 2023).

Adjustment strategies of households may also vary with family structure, income availability and job obligations. The significant differences in household wealth and income found in this study indicate differences in the ability to cope with wage changes. Changes in employment and

caregiving responsibilities due to the spousal health shocks can influence the economic stability of the households (Böckerman et al., 2025). Labor force participation can also be shaped by other family factors, such as decisions on fertility and childcare responsibilities (Jakobsen et al., 2025). Evidence on health shocks within couples highlights the need to consider the interplay between paid employment and informal care (Macchioni Giaquinto et al., 2022). Employment opportunities and adjustment strategies for households may also be shaped by institutional settings (Zhang et al., 2024).

The results indicate the value of job security, income coverage, and domestic financial security. Labor market competitiveness and household income policies can impact economic adjustment opportunities (Turner et al., 2022). Employment conditions are also shown to be vulnerable to economic shocks outside the economy, as evidenced by the global supply chain disruptions (Ulate et al., 2025). However, the study has several drawbacks such as missing observations, potential measurement error, and a lack of identifying wage shocks. It is an observational design, so it is not possible to make causal interpretations and repeated observations of the same households need to be handled appropriately. In future research, it would be beneficial to include wage shocks from outside sources, alternative wage measures, and approaches that rely on household fixed-effects to separate behavioral responses from mechanical wage–hours relationships. This could offer greater evidence on the reaction of household labor supply and consumption to economic uncertainty.

5. Conclusion

This paper analysed how a change in wage rates affects the household labor supply, concentrating on adjustment of working hours and consumption behaviour, based on longitudinal household data. The results showed strong negative relationships between wage changes and hours for both individuals and their partners. Households with lower wages tended to have more hours worked per person, while households with higher wages tended to have fewer hours worked. These patterns indicate that the labor allocation of households could shift over time as their earnings and economic conditions shift. The actual correlations, however, should not be considered as causal reactions to shocks in wages. Household consumption expenditure grew for each category of household with a wage change, and relatively more in the positive-wage-change categories. Further regression analysis also revealed positive if small relationships between wage changes and household expenditure, which were statistically significant. The results show that the consumption

adjustment may be different from the labour supply adjustment, reflecting the household's financial resources and expenditure needs. Economic adjustment patterns may differ for socio-economic reasons such as family structure, household wealth and income. The study highlights the need to know how households react to wage uncertainty and how flexible they are in terms of employment. However, the results of these observations are constrained by data limitations, and the calculated wage and working hours may be mechanically linked. Future studies should use external wage shocks, and more robust longitudinal techniques, to yield more accurate findings regarding employment and income protection policies.

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