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Welfare Analysis of the Allocation of Time During the Great Recession

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Business cycles induce changes in individuals' work hours and monetary income. The reallocation of forgone market work hours to activities such as housework and leisure can compensate partially the loss of income during recessions. Conversely, the decrease in non-market time during economic expansions can partially offset the utility derived from rising income levels. Looking only to variations in income yields therefore an incomplete picture of individuals' welfare. In this paper, we structurally estimate the parameters of a household production model to develop a new kind of well-being measure that depends on the quantity of goods and on the amount of non-market time. According to our results, the reallocation of the forgone market work hours absorbed 30% of the Great Recession's negative welfare impact.