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Labor Market Trends and the Changing Value of Time

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During the past two decades, households experienced increases in their average wages and expenditures alongside with divergent trends in their wages, expenditures, and time allocation. We develop a model with incomplete asset markets and household heterogeneity in market and home technologies and preferences to account for these labor market trends and assess their welfare consequences. Using micro data on expenditure and time use, we identify the sources of heterogeneity across households, document how these sources have changed over time, and perform counterfactual analyses. Given the observed increase in leisure expenditures relative to leisure time and the complementarity of these inputs in leisure technology, we infer a significant increase in the average productivity of time spent on leisure. The increasing productivity of leisure time generates significant welfare gains for the average household and moderates negative welfare effects from the rising dispersion of expenditures and time allocation across households.