

Abstract

Saving for a rainy day is driven by precaution. Because, in principle, leisure affects utility similarly as consumption, it also should respond to the saving motive. Here, we study the role of precautionary saving for labor supply, and focus on the wage elasticity of labor supply. We study this link in the context of a calibrated quantitative model in which households are impatient and use durable goods, thought of as including real estate, as a collateral for borrowing. In this model, households save by holding more equity on durable goods than they are required, which is here identical to holding interest earning assets. The buffer stock of assets makes possible to smoothen better consumption and leisure, and this enhances the elasticity of labor supply to wage changes