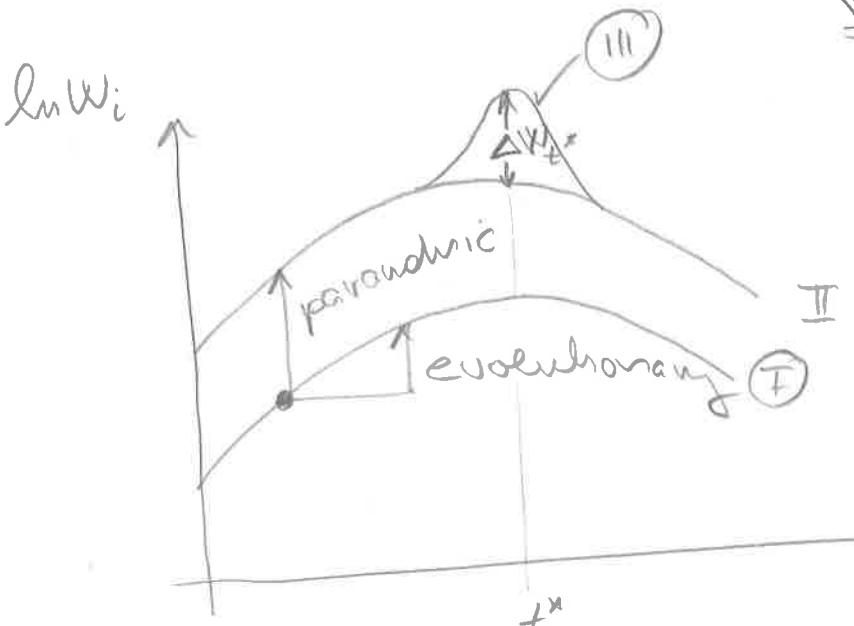
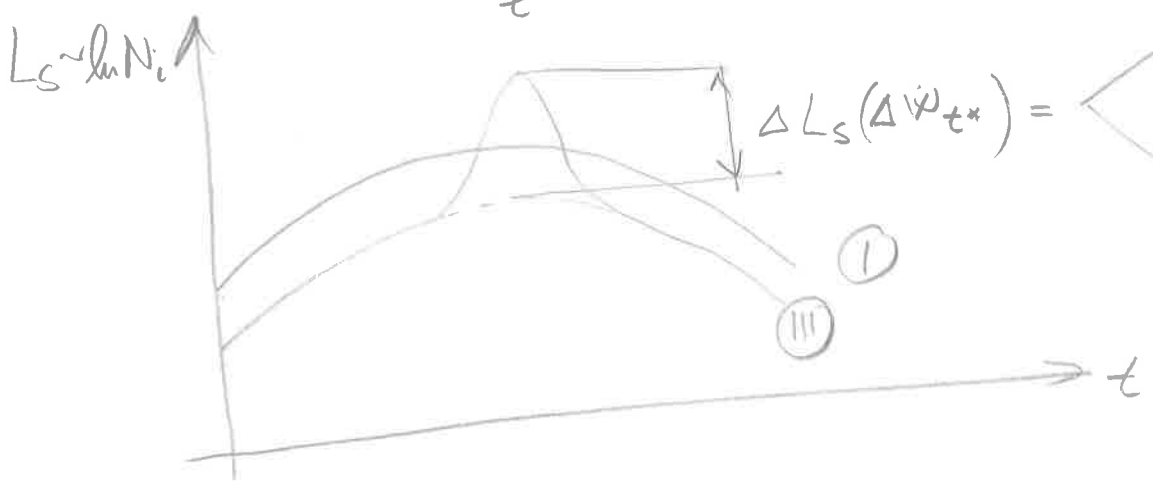
THOMAS E. McCurdy JEP'81 pp.

$$\ln N_i(t) = F_i + bt + \delta \ln W_i(t) + u_i(t) \quad (13)$$

- $\ln N_i(t)$ → L_S
- F_i → indiv specific → $F_i = f\left(\sum_t W_i(t)\right)$ ~ wealth (12') life-cycle (14) effect (19)
- bt → minor
- $\delta \ln W_i(t)$ → evolutionary effect

$\delta < 0$





Interpretation of parameters

① Parametric change in w = change in wage profile
= difference across indiv

② Evolutionary change in w = along profile

Aging → $N_i(t)$ – response to evolutionary wage change ≡ move labor when $\uparrow w$

- NO wealth effect due to perfect foresight
- given log $\underline{\underline{\sigma}} > 0$ inter temporal subst. elasticity

Two people: I & III

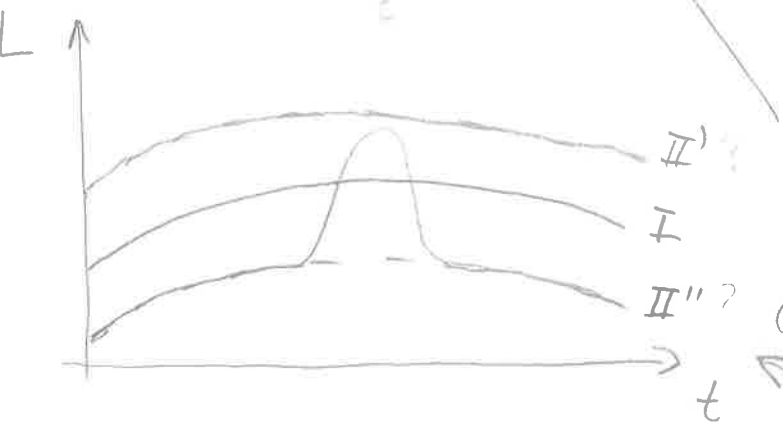
Δ ~ parametric wage change

↳ 2 effects ② & ③

② ↗ Δ → ↓ F_i (wealthier)

$F_{III} < F_{II} \Rightarrow \Delta F = \chi(t')$ #14

③ ↗ Δ → $\sigma \cdot \Delta$ (in #13)



$\Delta \ln l = \ln l_{III} - \ln N_0 = \Delta \underbrace{[\sigma + \chi(t')]}_{\geq 0}$

$\sigma > 0$, $\chi(t') < 0$

① & ②: $\Delta \Pi_0 \rightarrow F_i \downarrow$ through $\tilde{\gamma}_0$ in (19)
↳ $L_s \downarrow$
$\Delta \Pi_0 \rightarrow \sigma \Delta \Pi_0 \nearrow \Big\} \tilde{\gamma}_0 (+\sigma \gtrless 2$