

Three Essays on Labor Economics

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1 Child Support and Remarriage, *Job Market Paper*

This paper studies the reasons for low levels of child support paid by non-custodial divorced fathers. In divorce, non-custodial father's necessary child support is typically reduced once the mother remarries, as some financial burden of raising their children shifts from biological father to the step-father. This provides an incentive for the father to encourage mother's remarriage through the use of strategically picked payment level. Assuming father's income is to some degree unobservable by mother after divorce, his current payment will serve as a signal of his true level of income to the mother, and she will use his payment level to form an expectation of his true income. With a sufficient low level of current payment, she is likely to assume that the father has low income and hence be more likely to remarry, given exogenous and randomly-arriving remarriage options. Thus the father has the potential to manipulate the mother's remarriage probability for his own benefit. In my paper, I first formulate a theoretical model of the father's optimal transfer and the mother's remarriage decision in a two-period dynamic Stackelberg game. The equilibrium closed form solution shows that the father's optimal transfer is lower when his income is partly unobservable to the mother than when it is fully observable. I then investigate the issue empirically, using data from the Panel Study on Income Dynamics (PSID) in the U.S., examining whether the father's payment is related to the degree of unobservability of his income, using proxies for that unobservability. The results show that the payment is indeed lower, the greater the degree of unobservability.

2 Compensating Wage Differentials over the Life Cycle, *in progress*

Although there is empirical evidence of a positive compensating wage differential for fatality risk, little research has explored the effect of lagged riskiness on the current wage. Workers' current occupational risk may affect future earning capacity. In this paper, five channels through which current risk affect future earning capacity are investigated: the wage rate, the labor supply, the persistent risk, the job quit, and the health endowment. Using job information about current and previous employment from Census 1970, I find that workers in risky occupations tend to work more in the future than their safe counterparts, without earning higher income. This implies that workers in risky jobs sacrifice future wages in exchange for higher wages today, biasing upward static estimates of a compensating wage differential.

3 Household Consumption Patterns During a Financial Crisis: The Case of Pakistan (with Xiaohui Hou and Cem Mete (World Bank)), *in progress*

Before 2007, Pakistan maintained an expensive wheat subsidy program to keep wheat prices low and stable. As world food prices soared in 2007 financial crisis, this program became increasingly expensive and was hard to maintain. Consumer prices increased, reflecting both increasing world prices and the insufficiency of subsidy. This paper analyzes the impact of rising retail prices on wheat expenditure using a series of cross-sectional surveys. Estimates of the price elasticity of wheat demand in Pakistan are used to estimate the monetary transfer needed to compensate poor Pakistanis for rising prices.