FAMILY AS A PRODUCER

- Production

- Non Market production
  - The importance of evaluating household production
  - Methods to evaluating household production
  - The distribution of time and energy in the households

- Market production
  - Human capital investment.
Production

Concept:
• Production involves the creation of utilities and add value to the factors of production

Production activities:
• Involve mental and physical process where the family members have to plan, implement, evaluate and control
3 Categories of Production

1. Market production - revenue & earnings

2. Household Production
   - What to produce?
     - allocation of time eg: housewife vs. work in the market
   - How to produce?
     - Labor, + natural resources, + equipment /technology?
   - Who is using the G&S – distribute among the family/hh members

3. Community production
   - Unpaid activities & volunteer
Household Production

Definition: Unpaid activities done by and for household members, whereby if the economic, financial, market and personal situation permits, the service might be done by other people (Margaret Reid, 1934)

- A household production activities to produce G&S for the hh members. - i.e. unpaid (so, they are considered as non market activities)

- G&S produced at home can also be purchased from the market (market replaceable)

- Production activities can be done by a third party without affecting the utility derived by a family member.
Examples of Household Production Activities

- Food Preparation at home
- Washing clothes
- House maintenance
- Child Care
- Shopping
- Gardening
- House Cleaning
Household production activities (Beutler & Owen, 1980)

- **Separable (replaceable)**
  - Household activities that can be delegated to a person and he/she is paid for doing that activity and he/she can produce the same output quality. E.g. washing clothes, cooking

- **Non-separable (non replaceable)**
  - Cannot be replaced effectively by paid labor from the market because the activities involve the following factors:
    - Human behavior OR
    - Relationship involved
  - E.g: Love and affection to children can not be transferred to others @ given value.
Why evaluate household production?

• Calculate real GNP.
• Determining the compensation or losses due to a divorce/accident
• Basis for justification of women's participation in labor market.
• Comparing the productivity of families.
• Explaining the work load of current and in the future.
• Enhance the feelings of self-worth.
• Appreciate of family members in their non market activities.
• Estimating the cost of raising children.
• Determining how hh members can contribute in enhancing the standard of living.
Methods of evaluating household production

1) Cost approach.
   E.g. household production @ work in the market.

2) Market alternative
   Replacement cost - wage rates i.e., the cost of home helpers.

3) Reservation
   Estimate the minimum wage.
   Important of time

4) Value added
   Input-----process -----output
Household Production Model

- Pioneered by Becker in 1965.
- Focus:
  - HH decisions to participation in the labor market.
  - HH involvement in markets & non-market activities.
  - Human Capital Investment.
  - The effect of time value of HH in consuming various products e.g: eating out.
  - Describe how G&S and time can be combined to produce commodities
Family and Time Allocation

- Time of limited resources (individual has 24 hours a day).
- Not enough time OR do not know how to manage / allocate time.
- Use of time:
  - Leisure
  - Household production
  - Job in the market
- Time and Utilities
  - Time worked in the market is not a major source of utility.
- Method of Evaluating Time
  - Observations
  - Self report
  - 24 hours recalls
Implications of Time Allocation

1. At a higher wage, the opportunity cost of non-market activities is high. Thus individuals may minimize non-market work.

2. Individual may choose to involve in non-market activities if it is cheaper.
Factors influencing the distribution of the time for household production activities:

- Number of children
- Age of the youngest/eldest child
- Employment status of the wife - working or not working
- Educational level of husband and wife
- Household income
Discuss

• Ancient era:
  • Women - at home, men - worked in the market.

• Now: women involved in market work, what is the impact to hh production?
  • Spouse contribution in hh production
  • Quantity of hh production activities
  • Time allocated for hh production.
  • The phenomenon of "House-husband'.
  • Use of technology in the home
Factors influencing the distribution of household labor

- **Economic**
  - Bargaining power in the house

- **Demography**
  - e.g. age

- **Social**
  - culture
  - Sex-roles stereotype
Human Capital Investment

Quality acquired by an individual in various aspects such as knowledge, health, skills, experience which can influence individual's productivity and ability to earn income.
Human Capital Investment

- Formal education
- Training and experience
  - Practical prior to work
  - On the job training
- Health - improving life expectancy (through health care)
- Migration for better opportunities.
- Educating and training children - to secure their future
Human Capital Investment and Labor Market.

- Formal education - Objective: To enhance wealth through increased future income.

- Example:
  - Additional education increased productivity in the labor market.
  - Employers realize this and are willing to pay more expensive for those who are highly educated.

- Thus, HCI is based on the returns.
Costs and benefits of HCI

Costs

- Total income forgone during the period of schooling = opportunity cost.

Benefits

- The cost of attending school: fees, books, tuition
- Increase in revenue
Age and investment in education

Costs of education
- Opportunity costs.
- Mental capacity etc.

Benefit of education
- Each additional year of schooling will shorten the period of employment (closer to retirement age)
- Future income