

University of Kentucky

Gatton College of Business and Economics

Institute for the Study of Free Enterprise



INSTITUTE FOR THE
STUDY OF
FREE
ENTERPRISE

Study simultaneously analyzes substitution between household production and demand for healthcare and substitution between household production among spouses

- **New model implies that state level divorce laws may affect demand for healthcare as well as health outcomes through their impact on household production and marriage markets**
- **Model extends well-known model of health outcomes in economics known as the Grossman model of household demand for health by including links between household production and marriage decisions**
- **Model has implications that could explain gender differences in product pricing**

Economists often use the Grossman model of household demand for health to analyze health outcomes. A robust model still in use after 50 years, the model accounts for the fact that goods such as healthy food or improved health can be purchased either through typical markets or they can be produced by a household. A shortcoming of this and related models is that they do not take into account that individual consumers may enter marriage to obtain help in producing at home. Dr. Shoshana Grossbard, member of the Family Inequality Network, HCEO at the University of Chicago, Professor at San Diego State University and recipient of a research grant from ISFE, along with the cofounder of GeFam, Dr. Lorena Hakak of UFABC, have extended the Grossman model by introducing the concept of WiHo, work in household production for the benefit of a spouse, and considering not only choices between commercially produced goods or goods produced at home, but also substitution between goods produced at home by an individual consumer or by their spouse.

Their model reveals several implications that either have been or can be confirmed by empirical studies. For instance, their model predicts that in places with a higher proportion of single individuals, certain medical services that could also be produced with a spouse's household production will be more expensive, that market goods that can be easily produced at home by a spouse will encounter demand that is more sensitive to price changes than goods that are not as easily produced at home by a spouse. In turn, this may explain price-sensitivity differences across markets such as family-style restaurants (more price sensitive) and bars (less price sensitive), and that in areas with higher sex ratios (more men than women), women will consume more relative to men. Their model also speaks to differences in these implications across both single individuals and married couples as well as before and after divorce.

Speaking to their model, the paper states, "new variables that can help explain demand for medical care and other health products are identified, including sex ratios in marriage markets and the exogenous parameters that influence sex ratios such as gender differences in mortality and incarceration. It is argued that laws about marriage or divorce may affect demand for health-related inputs and health outcomes such as good health or good nutrition. We examine how demand for health-related inputs may vary according to many traits of men and women who may marry each other and produce some goods on each other's behalf. New insights are gained regarding the determinants of the price elasticity of demand for health-related goods such as medical services."