

Impact of Personal Bankruptcy on Labor Supply Decisions

- The Chapter 7 bankruptcy code was motivated by the notion of “fresh start”, justified in part by the Supreme Court on the ground that it would encourage work incentives.
- This project answers the question “how does a fresh start affect labor supply?” by exploring in the context of a model with job search and bankruptcy choices.
- An important finding is that Chapter 7 filers on average increase labor supply by 3.5 percent, with 2/3 of the changes from the extensive margin and 1/3 of the changes from the intensive margin.

$d^* \setminus d$	0	7	13
0	0.3965	0.5694	0.5489
7	0.5596	0.5660	0.5475
13	0.4068	0.5682	0.5351

- The above table shows the labor supply for households under different bankruptcy treatment. We can see a Chapter 7 bankruptcy filer would supply 0.5596 when he were instead forced to make repayment but increases his supply to 0.5660 under a fresh start.
- Since we learned from this project that a fresh start has a significant effect on labor supply, one interesting extension would be to investigate how a change in bankruptcy policies can affect aggregate labor.

Daphne Chen
 Department of Economics
 dchen@fsu.edu