Abstract:

The contributions of this paper are to quantify how reservation wages vary between people and over time, and to infer workers' valuation of flexibility in their choices of work hours. Economists and policymakers are keenly interested in these quantities, especially lately with the growth in jobs that offer flexible work schedules. Our study takes advantage of a large number of naturally occurring experiments conducted by Uber, the largest ride-sharing company, which create exogenous variation in offered wages across individuals and over time. Combining these experiments with high frequency panel data on wages and work decisions, we document how labor supply responds to the exogenous changes in offered wages in a setting with no restrictions on hours choices stemming from the demand side of the market. We find evidence of systematic heterogeneity in labor supply responses between people and over time, significant fixed costs to starting to drive, and high demand when it is costly for drivers to work. These experimental findings motivate a dynamic model of labor supply with flexible heterogeneity in preferences over work schedules, start up costs, and correlation between offered wages and cost of driving in a given period. The primitives of the model are recovered from a combination of the experimental estimates and other data moments. We use the estimated model to compute how reservation wages vary between people and over time, and to perform counterfactual analyses. These analyses allow us to infer drivers' willingness to pay for the ability to customize and adjust their work schedule, and to examine how preference heterogeneity and adjustment costs influence the effectiveness of wage incentives that Uber can offer.