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## Labor Supply and Consumption Smoothing When Income Shocks Are Non-Insurable

by Alexander M. Danzer  
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### Abstract:

The paper investigates how employees use secondary employment to smooth out consumption shortfalls from non-anticipated wage shocks in their main employment. The identification strategy exploits surprising changes in firms' wage payment and repayment behavior in Ukraine. Based on unique nationally representative panel data, the econometric approach accounts for workers' unobserved heterogeneity and measurement error in the wage shock information. The estimated labor supply responses suggest that secondary activities are used as temporary coping strategies against wage shocks and that they closely follow the lifecycle of wage arrears. Households that engage in secondary employment can successfully smooth their consumption. The results are robust to several alternative hypotheses concerning the observed labor supply pattern.

**Text:** See [Discussion Paper No. 5499](#)



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