

Decision Processes Colloquia

Monday, March 2, 2026

Where: JMHH 360

When: 12:00 – 1:20 pm

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Habit Formation in Labor Supply

ABSTRACT:

We examine the possibility of habit formation in labor supply. Using a field experiment with casual urban laborers in India, we randomly provide treated workers with small financial incentives for attendance at labor stands for 7 weeks, leading to a 26% increase in labor supply. We then test for the persistence of impacts after the incentives are removed. First, we see a persistent 18% increase in labor supply over the following 2 months, resulting in a 10% increase in employment. Second, labor market disruptions deplete habit stock: shocks that temporarily pull workers out of the labor market instantly eliminate persistence effects; in the absence of these shocks, we cannot reject that there is no decay in persistence over time. Third, we see no "fixed cost" changes in household time use, or learning among workers or employers—consistent with true habit formation. Rather, workers self-report an increase in automaticity—suggesting a change in their psychological default. Fourth, treated workers exhibit a higher willingness to accept work contracts that are of longer duration and less flexible. Fifth, employers accurately predict treatment effects, and prefer hiring workers who have been treated with our habit stock intervention. Our results support the view that habit formation in labor supply has relevance for a variety of labor market phenomena. They also suggest that in low income settings, intermittent employment and frequent shocks may inhibit workers from becoming habituated to regular work—with potential implications for absenteeism and the transition to formal employment in poor countries.

