

When economies are hit by crises, shocks, or rapid price changes, many households suddenly see their incomes rise or fall. In these situations, people must decide whether and how to adjust their spending, savings, and work effort — decisions that are crucial not only to households' own financial stability but also to the effectiveness of public policy. Governments rely on assumptions about how people respond to changes in income when designing tax cuts, social transfers, or one-off support payments. Yet households do not all react in the same way. Some spend most of an extra payment immediately, while others put aside a large share. Similarly, some workers adjust their working hours when income opportunities shift, while others keep their work schedule unchanged.

This research project examines how households adapt their spending and amount of labor in response to unexpected changes in their income. Unlike many existing studies that examine either spending or work choices in isolation, this project analyzes both dimensions jointly for the same households. It focuses on two key questions: How much do households change their consumption when income fluctuates? And how strongly do people adjust their work effort in response to income changes?

To address these questions, the project relies on carefully designed survey experiments. Participants are presented with realistic economic scenarios – such as a sudden job loss or an unexpected bonus – and are asked how they would react. This approach makes it possible to measure individual responses in a controlled setting and to compare behavior across different groups of respondents.

A defining feature of the project is its international scope. Data are collected in 20 countries that differ widely in their cultural, institutional, and social environments. Comparing responses across countries is crucial for understanding what drives differences in household behavior. Using harmonized survey instruments, the project links cross-country variability to factors such as the strength of social safety nets, cultural norms, trust in institutions, and personal experiences of economic hardship. It also studies how reactions vary with income, age, and family structure, and how decisions are made within households. When income changes affect the household budget, partners may respond differently in their spending or work choices. Understanding these dynamics is essential because many policies target households rather than individuals.

By providing systematic evidence on how people react to income changes, the project aims to improve economic models used in policy analysis and offer guidance for designing more targeted instruments – such as one-off support payments or tax credits – so that assistance reaches those who need it most and supports the broader economy. Over the longer run, this can contribute to more stable employment, fairer and better-targeted social benefits, and faster, more efficient responses to crisis.