

## Original Paper

# Some Today Approach of the Household in the Economic

## Literature

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### **Abstract**

*The household is likely to base on one family structure—i.e., two spouses, sometimes together with a number of children. The latest are also likely to grow up, fulfill the age of majority, but sometimes stay further home, in the same old household with their parents while though they get some jobs around and earn some money in the labour market, as well as their parents. Other kinds of human relationships than legal family might equally make it. And households of one or another kind are found to work similarly, as economically. Besides, household is unanimously admitted among economic entities—i.e., it is autonomous in its economic functions, never subordinated to anyone else, and enough influenced by its environment. The literature exposed below will see the household making its own: (i) production, (ii) consumption and (iii) time reserve allowing. The below paper will then search for some insights in this particular economic area.*

### **Keywords**

*household, labour, utility, economic entity, labour market, informal economy*

### **1. Introduction**

Actually there is to talk about two parts of the economic literature debating about the *household*, i.e., the “old” and the *contemporary* ones. The previous might be called as such due to both its bibliographical age and the age of the household here pointed. Actually, authors are referring to two concepts, i.e., the *natural economy* and *macroeconomics*, as its genesis. Karl Marx, the first classic of socialism-communism, with his *Grundrisse* or *Capital* (Marx, 1975a, p. 896, p. 898) and Lenin (1970), continuing and developing the same ideology, equally were both referring to that household of the early

and so long time roughly between Neolithic and early Middle Ages in Europe fully opposite to the rest of economy around—i.e., pretty similarly to contemporary market economy circumstances.

The latter part of the literature does refer to an author and scholar of comparable size, i.e., John Maynard Keynes (1936), with his (also) proper “capital” paper. His so called “Macromodel” sees households—i.e., contrary to Marxism—skipping all confrontation with the rest of the economy, but part of the latest, as a whole. Interesting is equally that households (i.e., no one else) receive the whole current *gross national income*, all money that firms, *banks*, *Government* and *rest of the world* (the international economy) are betting in the aftermath within same short term. Households viewed here *consume*, *save money*, *pay taxes* and even access the consumption part of *imports*.

Then, this paper below will see the *contemporary* household approaching literature and just one of these possible approaches. This might be called *conceptual* approach—e.g., while one of its alternative could be, let us say, “*modeling*” expressed.

## 2. Theory of the Individual Consumer

This “old” *theory* is viewed in the literature as the starting point of all later and contemporary *neoclassic* developings in thinking. Its primary theoretical assumption is the *individual utility maximising*—e.g., corroborated with the subsequent one of the consumer fully informed (Matilla-Wiro, 1999, p. 33). *Utility*, as one of basic economic functions (Note 1), does benefit from a quasi unanimously accepted definition that sees it as the individual consumer’s satisfaction provided by good’s consumption (Eastwood, 1985, p. 48) (Note 2). *Utility* (Note 3) comes out of good *consumed* and that immediately, automatically and as the consumption *function* (Note 4). Consumer is so seen as *rational* in his/her good picked from a range of goods to (better) satisfy his/her utility expected.

*Time* (Note 5) isn’t part of the utility function (Note 6), e.g., price does not change during the consumer’s corresponding goods/utilities option done. On the contrary, *price changing* induces changes to the individual’s options as correspondingly—i.e., see the utility function, once more—and this with direct impact on afferent policies influential in the same area. Or, consumer’s *income changing* is expected with similar effects (Varian, 1990) (Note 7).

Shortly, *consumption optimizing*—in the consumer’s theory—keeps the exogenous of (1) individual preferences, (2) price level, and (3) consumer’s income. The consumer’s decision draws the *demand* or *demand function* basing on these factors, then this function might see itself affected by goods’ price and consumer’s income (Matilla-Wiro, 1999, p. 9). *Utility* sees itself shaped by individual preferences—e.g., high utility for preferences at the same. There is no common utility measurement since the *plural* utility function—i.e., as well as utility measured in terms of the quantity of good. In practice such a measuring identifies/reduces to comparing, by the consumer subject, diverse goods packages (Estola, 1996).

In a critical view, there could be striking limits for consumer’s *rationality*, as assumed by this given theory —e.g., a number of authors doubt on both the *full information* about goods to be consumed and

*utility maximizing*. Actually, utility maximizes and stabilizes itself along the *indifference curve* (Note 8) (Matilla-Wiro, 1999, pp. 7-8). The theory skips uncertainties related to goods' market and technical evolving—i.e., and both these always stay strongly influential factors for all consumer's options and for their changing during time (Gravelle & Rees, 1981). As for the *household*, in particular—i.e., apart from general economics and corresponding judgments—other specific utilities are appropriate, plus, unlike the rest of economy, these household utilities might not devolve directly from resources allowance, e.g., leisure-recreation, friendships (Matilla-Wiro, 1999, p. 8). The same utilities (Note 9) are to be noticed as being even able to connect consumption to production.

*Individual utility maximizing* is admitted by the literature to be the household's imperative (Matilla-Wiro, 1999, p. 33). The *utility function* of the household is seen as the *algebraic sum of individual utilities of the same household's members* (Sen, 1966; Alderman & co., 1995), so neoclassics feel nearly forced to admit, or even notice the *uneven welfare distribution* within the household (Matilla-Wiro, 1999, pp. 7-8).

Similarly to cumulating individual utilities within household for the latest's proper *utility* accounted, the household's *welfare* refers to the one shared by its members either—i.e., and that in the *efficiency* related environment. Alderman and co. (1995) do not here exclude—i.e., they really consider—efficiency when *uneven welfare* within the household and Hannad and Kanbur (1990) do criticize those rigid policy decisions that ignore such circumstances, here and there dealing with some kind of *traditions* in the Third World. Though, these last authors also finally accuse welfare distribution within household—i.e., actually, its dysfunctions—as responsible for the whole society's created needs of corresponding economic policy repairs.

Browning and co. (1994), in their turn, broadly admit that the consumer theory meets empirical verifying for the household cases, except for household behaving *like one single individual*. And this in the middle of critics “cross fire”—e.g., classics are criticized for limiting the household's needs to the acquiring goods corresponding resources (Becker, 1993). Hawrylyshyn (1977) argues that, despite the consumer theory's incomplete analysis or could be, on the contrary, just for such reason its appropriate reply was going to come up from not so far, namely from the (same) *neoclassic* thinking camp—i.e., the Gary Becker's and Kelvin Lancaster's distinct contribution models are seen by the literature as somehow shaping the “Becker-Lancaster model” of the household.

In context, Lancaster (1975, p. 9) adds assumptions to both *individual* and *household*. The *individual* is viewed as: (A) *traditional*—i.e., goods are distinct parts ranking in the consumer's *preferences* system—and (B) in the system of *characteristics*—i.e., each presumable item of the latest is actually assumed to belong to several goods. Then, when *household*, in its turn, is taken like *the individual*, it is assumed that: (1) the individual stays efficient when the number of characteristics is lower than the one of goods ( $R < M$ ) and so goods chosen will automatically be fewer than their total available number; (2) *substitution* predominates for the *consumption demand*, together with corresponding *budget constraint*, and so two further alternatives get equivalent: (a) *Slutsky matrix* (Note 10), as symmetrical and

*negative semi-definite*; (b) both the strong and weak *axioms of revealed preference*, as satisfied (Lancaster, 1975, p. 7).

In such a view, anyway and any-time the *household*: (i) is a number (Note 11) of individuals that is (ii) low enough, and (iii) these individuals are “close-knit”. The *aggregate consumption vector* in the household does result by cumulating the corresponding individual vectors of the household’s members. The household’s *aggregate consumption vector* is further assumed to correlate with the complementary one of *aggregate income* and separately with the economy’s *goods’ prices vector* the way the above (1) and (2) assumptions would be satisfied and concomitantly the household is assumed to act like one single individual (Lancaster, 1975, p. 7 and the following).

### 3. The Household’s Production Function

The household is assumed as *rational economic entity*—i.e., a unique objectives/goals set afferent to all members (Ellis, 1988) and as such it is supposed to become a *production unit*, as all (production) firms working in the competitive market area. So, household is here assumed to have a proper *productions frontier* (Note 12) type function (Matilla-Wiro, 1999, p. 5 and the following). The same for *labour division* between household members—e.g., sex based—up to *specializing*—e.g., similarly to acting as nations, in the international trade area (Matilla-Wiro, 1999, p. 14), the example in which international *arrangements* are supposed to come out (Krugman, 1991, p. 11).

This *household-international market* topics comparison extends, in its turn, backwards in time to the early 19<sup>th</sup> century, when David Ricardo (Note 13) found the *comparative advantage* (Note 14), together with its basics leading to *labour productivity* (Matilla-Wiro, 1999, p. 14) (Note 15). *Specializing*, for household, works as such on labour distribution first between market and household, according to the comparative advantage rule, and when so household is chosen by the individual, its labour division is to be equally considered. Reservations to come on admitting such economic communication fully working between household and its outside market economy (Matilla-Wiro, 1999, p. 34). Plus, in the same contest of facts the, old’ sex based labour division might even be some disadvantage for household members (Matilla-Wiro, 1999, pp. 14-15).

The same as the above Lancaster’s contribution to household on the consumption-consumer side, Gary Becker comes on this *production function* one. Simply, this production means acquiring market goods and combining them basing on the household’s *time* resource to make specific *household goods*—e.g., children, healthcare, watching shows, other diverse pleasures and leisure (Bergstrom, 1997). And this is a set of items that Manser and Brown (1980) do enrich by others that aren’t material, like love and understanding—i.e., these last are supposed to be produced inside the household, where previously brought in by marriage and lastly made for strengthening the whole set of preferences.

The *Gary Becker’s theory-model* on the household, that is called the “new theory”, is actually seen as achieving what previously had been the *individual consumer* theory and this through a new thinking phase—i.e., this new thinking phase doesn’t aim any true reply to the old thinking in the area. The

scholar uses an *economic* research tools approach to the household's behavioural understanding—i.e., assuming: (1) *maximizing behaviour*, (2) market equilibrium and (3) stable preferences. Besides, there is to talk once again about this above mentioned *production function* of the household that is rather similar to the one of the firm working in competition area, but concomitantly both basic and non-material goods (new examples: sleeping, children, etc.) are produced by household.

Ironmonger (2001, p. 3) is the one who makes it explicit that specific *household goods* (Note 16) are done by household members for *their own consumption* and this using the household's proper *capital* and *labour* resource that isn't rewarded—i.e., unlike the market economy specific circumstances—and once more market goods acquired, as *intermediary goods*, are here used to produce these *final* household goods.

At the next page the author deepens the household's specific productions classifying: (1) *subsistence* (part of) production—e.g., hunting, fishing, seeding, farming—, (2) *volunteer* production—i.e., unrewarded, as well—to the help of other households, (3) *public* production—e.g., army, healthcare, education, justice, road building (Ironmonger, 2001, pp. 4-5). And going on this into a sort of Marxian “qualitative leap”, the author suggests a Leontief (1941) type table (Ironmonger, 2001, p. 7) afferent to household internal activities (productions or industries)—i.e., even here using one of his own previous studies (Ironmonger, 1989), associated to Eisner (1989), with an idea of *national accounts* extending, concretely for a study on Australian households. As effectively, the approach result was an *input-output table* with *satellite accounts* proper to household and containing *six industries* (i.e., common to the household and the whole economy): accommodation, food production, clothing, transportation, leisure, care, whereas shopping and cleaning account apart, for subsequent activities.

And about here Eisner (1989), once more, draws attention about the opposite idea to that the household made goods would be basically specific and quite “different from market goods”—i.e., there are equally those household made goods that are quite the same as market goods, e.g., food meals, as in restaurants and related places, transportation, like by common transport means, healthcare, like by special care centers. So, the author touches on the debate on “purely” household, versus “purely” market goods, together with the alternative of “mixed” goods, as between these two (Ironmonger, 2001, p. 11, also citing Eisner, 1989).

Moreover, Eisner (1989) equally adds his proposal for *Gross Households Product (GHP)*, as cumulating *value added* of all households and so, once more, *households' production* would be underlined as the result of its “specific” factors: (i) labour (i.e., not rewarded) and (ii) capital—e.g., technical means, time, supermarket and other market goods sources accessed. All these, compulsorily related to the national economic structure.

Back to Ironmonger (2001, p. 6) (Note 17), where this author goes as far backwards into the literature's history as citing Margaret Reid (1934, p. 11), he actually also goes on deepening the household *production* definition through the *production-consumption dichotomy*, e.g., the *third person criterion*—i.e., there is accepted as *productive*, in the *household*, that activity which is unpaid when

made by members, but able to be assigned to somebody else from outside the household, as paid. Another criterion here in the same debate is the so called *market alternative*—i.e., an activity is taken as *productive*, in the household (as well), when it is able, as well as outside, in the economy, to hire labour and/or capital for its same productive aim (Ironmonger, 2001, p. 6).

Last, but not least, the author gets preoccupied by measuring/estimating the households' production—i.e., naturally, such a preoccupation comes to be shared by other scholars, as well (ibidem, pp. 9-11). It is actually for long time already that statistics stay likely to keep pretty off households' production(s) interest (Nordhaus & Tobin, 1973; Weinrub, 1974). But there were also exceptions to be highlighted here and there—i.e., it was before the last World War that some national statistics were providing such estimations, e.g., of Denmark, Norway and Sweden. In Norway, for instance, it started in 1912 and stopped in 1950, after the War, at the UN's suggestions for methodology to be changed (Aslaksen & Koren, 1996).

There is equally a third group of studies to talk about in context. Boulding (1972) was estimating household purchases at about 60% of GNP, plus most of the whole economy's subsidies. Morgan and Baewaldt (1971) were seeing intra-household transfers, the year of publication, about three time higher than the US Government's charity (similar) transfers. Burns (1975, p. 8) highlighted that such intra-household transfers—i.e., that usually are as unpaid as works done and labour used in the household—might be higher value than similar transfers within the neighbouring market economy—i.e., those, of course, are paid. Waring (1988a, 1988b) adds to these a different view point, the one of the *unrewarded female activity* that is supposed to contribute not only to the economy and economic life.

The same household production measuring as *methodologies*, the last's primary attempts were made just by multiplying costs of hiring individual servant by agricultural profile household with the number of such existing households (Hawrylyshyn, 1976). Vanek (1975) and Szalai (1972) were further highlighting a real turning point of such methodologies in the sixties, once more, together with using the *time resource* method (Note 18)—i.e., this was coming to be in the very favour of international comparisons in such a way, e.g., see first a study of this type on 12 countries funded at that time by UNESCO and the Council of the International Institute for Social Studies, then the "Szalai method" was coming to be extended on studies about other OECD member countries at least for time data collecting and households samples done. Later on, Goldsmidt-Clermont and Pagnossin-Aligisakis (1995) found in statistics of 12 OECD member countries on the 1985-1992 year interval an *average household work time* (i.e., unpaid work) of about 24-26 hours a week *per adult individual*.

And back to Ironmonger (2001, p. 10), for the last time in this paragraph, he proposes, in his turn, other two alternative methods for households production estimating: (a) unearned wage/salary of the household member on the neighbouring labour market; (b) reward to craftsman of outside the household hired for some household activities. Even the author finds that both these might be criticized (Note 19).

Not to end this paragraph without a reference representative for the opposite skepticism against the household's production function—see Ruuskanen (1994) (Note 20) arguing that studying the household's production function rather makes things more complicate for market economy traditional analysis, than really helping economic policies, as so much expected.

#### 4. The Household's Time Factor

We are back to *time*, above considered, that in the household's case is attributed to Gary Becker (1993)'s contribution on both of the equally above described functions that are production and consumption (Matilla-Wiro, 1999, p. 11, pp. 33-34). In such an order the household time breaks down into: (A) *work time*—i.e., production, that is out of household—and (B) *consumption time*—i.e., that is inside the household. But, as the result it remains difficult to identify that part of *extra-time*—i.e., off the *work time*—that exactly matches the *household consumption time*.

One of consumption time assessment methods in the household could be its income that is, forgone' or actually lost (Matilla-Wiro, 1999, p. 13). Or, might be just this way that the fundamental idea comes up—i.e., according to Ruuskanen (1994) time finds its equivalent in *market goods*. But not only—i.e., when “time is income in the household” the same time actually becomes that (single) limited resource which is for household what the whole basic natural resources portfolio is for the “great” economy. Also notice that market goods—i.e., when statutorily compared with time—are never limited fund. Moreover, *time* may see its value rising inside the household (Becker 1993)—e.g., when leisure-recreation time in the household lowers, this might increase the household's access to market goods and services; on the contrary, the household time rise might equalize some, forgone' income, resource and utility (Matilla-Wiro, 1999, p. 12). Such an idea comes to re-confirm the above theoretical option for the time equivalence into market goods since also observing concomitance of enlarging household time with real wage diminution.

Last, but not least, Becker further considers technological progress and improvements able to rise, consumption time productivity' in the household—e.g., new access to supermarkets, to telecommunications (Note 21).

#### 5. Others on the Household

Ironmonger (1996) introduces the household's good/service of *care* and here accuses the *feminist* literature's responsibility for the care's novelty in studying and new inclusion in the household specific theories-models—i.e., they here see a sort of *maintenance* for the *human capital* and, of course, *care* would be equally viewed as a good produced with the help of the household's *labour*—i.e., unpaid, once more—and *capital*—i.e., viewed in all means and spaces detained by. More deeply viewed, *care* would be of two kinds: (a) *physical*—e.g., exercises, healthcare, sleeping, food providing and feeding—and (b) *psychological*—e.g., education, recreation, dialogue.

What is “*humane human capital*” and even counteracts the old (just) “human capital” concept—i.e., that, of course, isn’t any about capital, but on the contrary, about its opposite labour—is finally something that belongs to the household only—i.e., and never to the economy beyond. Or, this is also why the neoclassic thinking perceives it as really “strange” stuff. For both theory and practice *humane human capital* contains what all “purely economic” approach won’t ever be able to comprise—i.e., and this while the same concept stays undeniable source/factor of performance and productivity for the household. What is more than human capital in the “humane human” capital includes linkages and all interactions among people—e.g., real networks shaped as such—, together with promoting these, plus ideas that so move around between people and always regard either economic substrate, unhindered decisions, here including about maximizing utility, or comparative advantage and so on (Matilla-Wiro, 1999, p. 17, p. 19). Even earlier Mattila (1992) was here giving the example of Tanzania, where women were shaping such kind of relationship networks, primarily with relatives, but further on also with other people, as extensively and this was even helping the labour market, besides households, with capabilities renewed. *Humane human capital*, despite its undeniable support to both the households’ production function and market economy, never meets any market equivalent, not even for labour market (Matilla-Wiro, 1999, p. 19).

In another development let us recall that the *unequal welfare distribution* within the household is a reality recognized by all theories-models in the area—i.e., it is nearly about a kind of “universal household rule” (Bourguignon et al., 1993). The authors so get preoccupied of finding all rules with this kind of influence and impact—i.e., such an approach comes up the same as above, namely in favour of policy making—e.g., fiscal and direct transfers policies. Unfortunately, such examples are yet here expected.

Last, but not least, let us equally have in this end at least one of those that might be the most significant conclusions of Matilla-Wiro (1999, p. 32, and the following). The Finish author finds that, despite its importance, even the *household* term—i.e., here in the center of debate—isn’t unanimously viewed by today literature and theories-models, be they all the same *neoclassic* matter.

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## Notes

Note 1. In a range including basic economic functions like: production, demand, supply and welfare (Hardwick and co. 1999).

Note 2. Matilla-Wiro (1999, p. 8) sees such a definition as slightly materialistic.

Note 3. Utility proves itself a philosophical issue, before being economic, as well—i.e., *Marxism* denies it since not admitting it in the absence of its material source that is a good produced. *Marginalism*, on the contrary, despite its same age as Marxism, over-passes such a deadlock and so—i.e., separating utility from goods—both conceptually and in practice goes up to the double image of one good for several utilities provided and one utility coming from diverse goods that so account for *substitutes*. Moreover, the Marxian “non-utility” extreme position encounters an opposite extremism among Marginalists—i.e., utility should be entrusted with a unique universal unit of measurement that would equally include all goods in a possible ranking. Or, in reality this is not quite about utilities and/or goods, but about the consumer’s profile that lies beyond, as more or less rigorous as seen by different Marginalist scholars (Hardwick and co., 1999).

Note 4. See also Matilla-Wiro (1999, p. 7 and the following).

Note 5. That will be deepened below in a different context.

Note 6. Gary Becker is the one highlighting the time significance in his own household model, but it is the other basic function than utility, i.e., the production, that appears as time-related and time here is “resource and need” (Matilla-Wiro, 1999, p. 9, p. 11), as will be detailed below.

Note 7. Price and consumer’s income changing affect utility partly similarly, partly differently (Matilla-Wiro, 1999, p. 9). Income changing meets just the *income effect*, which is the consumer accessing a higher or lower utility level; price changing meets the same income effect, but this associated to *substitution effect*, which is changings among substitute goods deserving the same utility.

Note 8. The *indifference curve* is supposed to be plotted on a rectangular graph with quantities of substitute goods on the two axes and it represents two things: (i) quantities of goods x and y on each point that cover the same utility level and so makes the consumer “indifferent” of acquiring the one or the other as such; (ii) so making distinct one single utility level on all its points. The indifference curves are typically convex (convex hyperbolas) shape and so each curve is assumed to get an infinite number of points. Then, its complementary curve—i.e., the one completing the picture of consumer’s option done—is called *budget line* and it is straight and also decreasing slope. When tangent to the indifference curve, the budget line helps identifying that single quantities of goods x and y coupling that either satisfy the consumer’s utility or this one affords according with his/her available budget resources (Hardwick and co., 1999).

Note 9. In the next paragraph below there will be detailed on market goods acquired to be processed inside the household to make other different (specific) goods.

Note 10. This is a *theorem* in which the names of Eugen Slutsky and John Hicks are involved, of course besides the (neo)classic Alfred Marshall. It says that price changes induce to consumption demand two specific effects: (a) *income effect*—i.e., influencing the consumer’s purchasing power—and (b) *substitution effect*—i.e., influencing and causing mutations to the consumer’s goods preference system by inside.

Note 11. The author’s expression here is “collection of individuals”.

Note 12. *Productions' frontier* is supposed to be a *typically concave* curve—i.e., the 4<sup>th</sup> part of concave hyperbola plotted on the North-East sector of the rectangular graph, the same as positive values on both axes corresponding for x and y productions (industries) that do associate for the production factors endowment fixed and fully used. This way, this factors endowment is considered as “indirectly” represented by this curve—i.e., not (directly) found on any of rectangular axes, but “behind the scene”. However, the same productions' frontier extends its validity up to  $n$  ( $n \in \mathbb{N}$ ) productions—i.e., instead of just two, x and y, in which unique case it could be drawn on this same rectangular axes plan—and this fully preserving all principles untouched. The productions' frontier so fulfills the *Pareto type efficiency* requirements referred to production—i.e., neither higher resources than the limited available stocks, as the impossible alternative, nor less than the last, as Pareto inefficiency alternative (Hardwick et al., 1999). For all these above described, *productions' frontier* might easy be applied to the household entity, given both productions' plurality and limited resources.

Note 13. Seen as “the second classic”, after Adam Smith, both scholars coming from two successive Londoner generations.

Note 14. The *comparative advantage*, in the international trade area, translates the gain of a nation against another one from a trade transaction between entities of the two so developed over national borders. Some nations do win and others on the contrary from these over border transactions according to some rules that are not quite simple; on the contrary for individual transactions. In the end, the value added criterion is found to dominate the comparative advantage issue in the international area.

Note 15. Referring especially to the Becker model on households.

Note 16. And this author offers different examples, like: accommodation, clothing and childcare.

Note 17. An author that explicitly finds his contribution on the household topic as comparable to the ones of Becker and Lancaster (Ironmonger, 2001, p. 6).

Note 18. See conceptual details in the next paragraph, as continuing the above remark about time for the household production function.

Note 19. E.g., for: (a) the estimations' accuracy encountering at least a variety of wages in the labour market; (b) that the outside worker for the household is likely to perform better than household members for the same job.

Note 20. Citing Gronau (1986) and others for similar positions.

Note 21. Critics of the author reproach on his unclear separation between works that are supposed to make the household labour division.