

Does the target matter? The Dynamic Labor Decision of Fishermen

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Abstract

This paper explains whether and how labor decisions are shaped by reference-dependence. Two features of the fishery industry benefit researchers: 1) the decision of how many hours to work is not restricted and 2) the return to labor is varying stochastically. This paper proposes a fully dynamic optimal stopping model and estimates the structural model with novel survey data of fishermen which includes subjective target for each trip. The data consists of 460 halibut longline trips by 43 fishermen in 2006-07. The paper overcomes an empirical challenge of no data of subjective target in the literature which might lead to a less reliable test of the reference-dependence. In addition, the paper incorporates the evolution of the expected return based on observed initial beliefs and realized outcomes.