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**AUTHORS**

Hansen, Jorgen  
Liu, Xingfei

**ESTIMATING LABOUR SUPPLY  
RESPONSES AND WELFARE  
PARTICIPATION: USING A NATURAL  
EXPERIMENT TO VALIDATE A  
STRUCTURAL LABOUR SUPPLY MODEL**

**ABSTRACT**

We estimate an economic model of labour supply and welfare participation using data on single men from Quebec drawn from the 1986 Canadian Census. Detailed budget sets for each work-welfare combination accounting for income taxes, tax credits and welfare benefit rules are derived using a micro-simulation model. We show that predicted reactions to a welfare reform that took place in 1989 replicate actual changes in labour supply and welfare participation. We also illustrate the advantage of having estimated a structural model by showing how labour supply and welfare participation change when income taxes and benefit levels change.

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