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The Value of Your Personal Time

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What is the value of your personal time? How do you find a balance between work and leisure?

We've all been there; somebody wants you to do something that you don't want to do. When you say you "don't have time," what you really mean is that your time is a precious commodity and you don't want to waste time doing something that you don't enjoy. You feel guilty for your response, but should you?

Economic theory attempts an explanation that might help you assess what your time is worth and give you a good reason to say no the next time that you don't want to do something.

LABOR-LEISURE ANALYSIS

Labor-leisure analysis (in economic theory) states that the opportunity cost of leisure time (forgone earnings of the next best alternative) is equal to your wage rate. A person has a limited quantity of time equal to 24 hours in a day. Using a ceteris paribus model, each person has two choices of what to do with that time: work or leisure activities. Leisure is any activity outside of work (i.e., relaxation time, cleaning the house, sleeping, etc.) A person who chooses to work earns a wage that allows him to consume goods. A person who chooses leisure over work must "pay" the wage rate as the cost for each hour that is not worked. Thus, the wage rate reflects the opportunity cost of leisure.

In order for us to determine the best way to choose between our two goods, leisure and work time, we need to understand utility. Utility is the pleasure, satisfaction or need fulfillment that people get from their economic activity. Holding all things constant, a person will maximize utility by choosing L hours of leisure and work the remaining time, which will allow them to consume some level, C, of goods. While working a person will earn a wage equal to w that will allow him to consume goods or leisure time. This shows us that the person's real wage is equal to the marginal rate of substitution of leisure hours for consumption. In other words, wage rate is equal to the rate at which a person is willing to work one less hour in exchange for one more hour of leisure time. A person will maximize utility by finding some combination of work vs. leisure time. The wage rate is equal to the opportunity cost of leisure time.

WHAT DOES IT MEAN TO YOU?

It means that in a simplified world you can optimize your time based on the knowledge that leisure time and work time equal what you are paid for work time. One of the hardest elements in life is to successfully put a value on your time so that you can better prioritize the activities in your life. An example of this theory is the decision between washing your car at home versus taking it to the corner car wash. Let's assume an hourly wage rate of $50, and the cost of a car wash to be $10. The total cost at the corner car wash is $10 plus 15 minutes of your time, or $22.50 (real cost + opportunity cost of 15 minutes). To wash your car at home the real cost is zero but it takes one hour of your time, so according to our theory the total cost is $50

opportunity cost of one hour). With w equal to $50 the corner car wash doesn't seem so expensive anymore, does it? However, if your wage rate is $10, then $22.50 for a car wash is equal to 2 hours and 15 minutes of work, clearly you should wash the car at home.

Another useful application of this analysis is the struggle of men and women balancing work and home life. The September 6, 1999 Forbes discusses "Daddy Stress" -- men in senior level management positions that want to spend more time with their families. They feel pressure from both work and home to put in long hours and as the pressure increases and time becomes scarcer, it becomes increasingly difficult to find the balance that maximizes utility for the individual.

Where do you choose the balance? It is important to prioritize your time and to do this you have to place a value on your time. We've shown that leisure time is equal to the wage rate. With that assumption you should conclude that you would be indifferent to time spent at the office or at home. However, a person must maximize utility by choosing some combination of leisure time and work time. To do that we must include the additional utility gained by spending an extra hour at home. This marginal utility allows you to give precedence to the time that gives you more pleasure.

So, in this example we will assume Leisure = w + MU, where MU is the marginal utility that you receive by spending more time at home. We have already established that your time is worth what you are paid in wages but there are also the marginal effects of time spent in a pleasurable activity. Those marginal effects may come from time spent at home or work, but it is the added pleasure or marginal utility plus the wage rate that should determine your decision.

CONCLUSION

Whether you are working or taking leisure time, your time is equal to your wage rate. You must organize your time so that you earn the most money while partaking in the most amount of leisure time that brings you the most pleasure.

So, the next time that somebody asks you to do something you don't want to do. You can still tell them that "you don't have time" but now, you understand the economic rationale and you don't have to feel guilty about saying it.

Often in economics we throw ceteris paribus around like we can actually hold all things constant, as you know, this doesn't work in the real world and so there are a few things that this article has left out. I'd like to leave them with you as thinking points.

We have seen how to value time as a factor of money, but what about the intangible value you receive from spending an hour on Saturday afternoon washing the car with your kids? Or, the value that you receive by watching your child's baseball game on Friday afternoon. Or, even the value you gain by golfing on Friday morning with your buddies.

All of these can have added health and happiness benefits and need to be considered when valuing your personal time.