

# Abstract

This Master thesis aims at testing the intertemporal substitution hypothesis (ISH) for small and medium enterprises in Bosnia and Herzegovina. We predicted a positive relationship between the hours worked and the transitory changes in wages, and tested the hypothesis using the data collected via surveys of small entrepreneurs in North-Western Bosnia and Herzegovina; collecting data on daily income and the hours worked. The estimated wage elasticities are positive and different from zero, according to which it appears that the hypothesis of negative wage elasticities has no empirical evidence in the case of Bosnian and Herzegovinian entrepreneurs. This result implies that the intertemporal labour substitution hypothesis found supportive evidence and that we can reject the daily targeting hypothesis. We also argue that entrepreneurs tend to pursue profits across working days because their main motive for running a business is the accumulation of capital and wealth, so that they follow the pattern of intertemporal labour substitution. The findings can be explained by an unfavourable business climate in Bosnia and Herzegovina, which is a result of a long-lasting transition process the country is still undergoing.

**Keywords:** labour supply, elasticity, intertemporal substitution, daily targeting, SMEs, Bosnia and Herzegovina

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