

DISSERTATION DEFENSE

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Friday, April 16, 2010

10:00 am

384 Posner Hall

Parental Choices and the Labor Market Outcome of Children

This thesis investigates the dynamics of the effect of parental behavior on the labor market outcome of children and provides a framework for evaluating several policies in an intergenerational context. I focus on the ultimate effect of parental behavior on how children perform once they enter the labor market rather than on the more widely studied effect on children's cognitive achievement. Using the Panel Study of Income Dynamics, I first study the effect of family dissolution during childhood on wages of the second generation using a simple wage regression. The results imply that the event and the timing of family dissolution have significant effects on the wage of next generation. Motivated by these results, a dynamic structural model of the relation between parental choices and labor market outcome of children is studied. I find that not only family disruption but also parents' labor market supply and child bearing decisions play significant roles in determining the future wage of children. Based on this finding, I analyze the choices of parents in which forward looking agents make decisions about labor supply, fertility and family disruption. Parents adjust their behavior taking into consideration not only their own preferences but also the effect these decisions have on the labor market outcome of their children. The recovered preferences are used to conduct policy experiments that evaluate the effects of a baby bonus, a marriage bonus and a parental training program. The results imply that the marriage bonus and the parental training program are effective policies to enhance both the quantity and quality of the next generation while a cash grant for child birth is less effective. I also conduct the experiment that examines intergenerational changes in wages. The results show that the experiment alters the behavior of parents. When the experiment is understood as a deficit financing, then it implies that the benefits of the policies can be potentially undone by such a financing.