



# **HUMAN CAPITAL & ECONOMIC OPPORTUNITY**

global working group

## **CONFERENCE REPORT**

### Understanding Human Capital Formation and its Determinants

The conference was held on November 3rd with the goal of unveiling the determinants of human capital from both microeconomic and macroeconomic perspectives. The program included the analysis of human capital formation throughout different phases of the life-cycle: from early childhood to adolescence and adulthood.

Limor Golan discussed the role of assortative mating, fertility decisions, parental investments in children and parental labor supply in accounting for the intergenerational correlation of income. She illustrated a dynamic model of household behavior, which captures these various endogenous mechanisms. Moreover, the model includes a unitary household, which allows for within-household specialization between housework and labor market work. The estimated model shed light on the main forces behind the intergenerational correlation in earnings; both the return on the labor market of human capital and part-time versus full-time

Joseph Mullins examined the role of welfare policies in understanding differences in children's achievements. To answer this question, he built a dynamic model of household behavior and child development, which incorporates endogenous decisions of parental investments, labor supply, and program participation. He illustrates that policies, which guarantee a minimum income standard can improve children's outcomes. However, the effects are heterogeneous, and they depend on the heterogeneity of preferences and wages.

Nirav Mehta considered the effects of peers on studying decisions and academic performance. He considers an equilibrium model of social interactions and peer conformity, where the average study time of a child's peers affects the marginal cost of their individual decision of studying. The model is estimated using data of college students at Berea College, and information about their network of friendships. The results show that equilibrium network effects are quantitatively important in studying decisions and academic achievements,

and the effects are heterogenous with respect to the degree of network interconnectedness.

Youngmin Park explained the role of heterogenous parental altruisms in understanding the design of subsidies system for higher education. Youngmin developed a model where both parental transfers and college-enrollment decisions are jointly determined in the presence of borrowing constraints. The model is used to calculate the optimal system of subsidies to minimize the distortions generated by borrowing constraints. The socially optimal benefits would target students in constrained families with low-altruism parents and small transfers.

Andy Glover illustrated the effects of employer credit checks on the labor market. Specifically, Andy talked about how a poverty trap for unemployed workers can endogenously arise as an equilibrium outcome of employer credit checks and adverse selection: “an unemployed agent with a low credit score has a low job finding rate, but cannot improve her credit score without a job.” Andy built and calibrated an equilibrium model with labor search frictions, heterogeneity in patient level and human capital investments, and endogenous default on debt default (with associated effects on credit scores). The model is used to evaluate a policy that bans credit checks. The policy positively affects impatient workers (with low credit scores), but negatively impacts patient workers (with high credit scores) through the equilibrium effects on matching efficiency.

Rasmus Lentz discussed the human capital accumulation throughout workers’ careers in a frictional labor market with heterogeneous firms. He discussed the implications of matching frictions on employment contracts and job training (both general and firm-specific). First, this framework is consistent with the Acemoglu and Pischke (1999) result that higher frictions in the labor market increase the firm’s incentives to invest in match-specific human capital. On the other hand, the model shows that the equilibrium effects can overturn this: higher labor market frictions decrease matches quality, lowering the firm’s incentives to provide training.

