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Expectations, education, and opportunity

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ABSTRACT

Using a long panel of youths, we establish a causal link between parental expectations regarding education and educational attainment. In particular, we use an instrumental variables approach to find that the child's chances of obtaining a high school or college degree are increasing in the parent's expectations of the likelihood of these events. We then use differences between the objective likelihood of a child's educational attainment and the parents' subjective probabilities to consider the hypothesis that lower educational outcomes among certain groups are driven by a "culture of despair," where children are low-achieving because they are expected to underachieve. While we do find that children from households with lower levels of income, wealth, and parental education are less likely to attain high school and college degrees, we reject the hypothesis that this is driven by low subjective expectations of educational success. Rather, we find that parents from disadvantaged groups have expectations for the educational outcomes of their children that differ more from the statistical likelihood of these outcomes than do parents of children from advantaged households. That is, we find that parents in more disadvantaged households are more optimistic about the educational outcomes of their children than those from more advantaged households.

1. Introduction

Perceptions may have a strong impact on economic outcomes, such as educational attainment. Consider the example of a youth whose reference group (i.e., the group she perceives herself to be a member of) is one where a strong emphasis is placed on academic success. Models of group identity, such as that in Akerlof and Kranton (2000), would predict that this youth would work harder in school to maintain her sense of group identity; her perceptions of herself influence her decisions to continue and excel in academics. Group affiliations and self-perceptions may also result in a "culture of despair" as described by Kearney and Levine (2014) and Genicot and Ray (2014). That is, groups who have low success attaining desirable economic outcomes may adjust their subjective probabilities of attaining these outcomes downward, resulting in decisions not to invest in or pursue these options. As an example relevant to our work, those in a low income group, where rates of high school graduation are relatively low, may adjust downward the subjective probability they assign to their children completing high school. The parents and students would then use this lower subjective probability of completion in their calculation of the costs and benefits to investments in schooling. As the lower probability reduces the expected value of education, the result is that more low income individuals underinvest in human capital. Indeed, Oyserman (2013) highlights the

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importance of parental expectations and the self-perceptions of students as key factors in educational achievement. Thus there is the potential for such a negative feedback loop, where expectations affect education, which affect opportunities and thus subsequent expectations.

We motivate the feedback between expectations and educational outcomes with a simple model of human capital investment. Next, we use panel data to quantify the significance of the channels through which the expectations of parents play a role in the educational outcomes of their children. In particular, we look at the expectations of parents regarding high school and college completion of their children. The expectations of the parents are especially relevant in educations, since they typically make the significant decisions regarding investments in human capital (e.g., the choice of school, investments in extracurricular studies or tutoring and so forth). In addition, the attitudes and expectations of parents directly affect the beliefs of the students themselves. We consider the degree to which parental expectations affect educational attainment. Our use of a long panel of youth allow us to observe expectations from parents when the students are of high-school age and then follow these students through age 30 to determine whether the outcomes the expectations were over, high school and college completion, were realized. In addition, our data allow us to observe detailed information on the students, including standardized test scores that proxy for cognitive ability, which allow us to control for many of the important factors affecting educational attainment and isolate the role expectations play. Using instrumental variables models, we find evidence for a causal effect of parental expectations on high school and college completion.

Next, we test the degree to which subjective probabilities of educational attainment vary by socioeconomic status. In particular, we test for differences in expectations of completing high school and college across households grouped by income, wealth, and parental education. We find that subjective and objective expectations differ significantly across groups. Children from lower income households, households with less wealth, and households headed by individuals with less education have much less likelihood of graduating high school by age 20 or college by age 30. As would be the case if the culture of despair effect of group identity were true, parents of these children have lower subjective expectations of these achievements for their children. This condition, however, is not what drives the negative feedback loop between perceptions and outcomes the defines the culture of despair. Rather, the key condition for the culture of despair model is found in the differences between subjective beliefs and the objective likelihood of the outcomes. In particular, the culture of despair arises when one believes that positive outcomes are less likely than they actually are. If economic agents have rational expectations, there can be no culture of despair belief traps. We find that the differences between the subjective and objective probabilities of achieving high school or college degrees are inversely related to income, wealth, and parental education. That is, parents from households at the bottom of the income distribution have the most optimistic expectations. On average, parents from households in the bottom income quintile assign a subjective probability 21 percentage points higher than the objective probability of their children attaining a high school degree by age 20. This compares to a bias of 8 percentage points for parents from households in the top quintile. The differences for the probabilities of obtaining a college degree by age 30 show a bias of 43 percentage points for households in the first income quintile and a bias of 28 percentage points for households in the top income quintile. Using wealth quintiles instead of income, or using the level of parental education, we see similar patterns. Thus our findings show a bias in subjective expectations that may mitigate the effects of group identity and the negative feedback loop between group outcomes and individuals' perceptions.

There is substantial support for the importance of aspirations and expectations in determining economic outcomes, such as the educational outcomes studied here. Appadurai (2004) calls the capacity to aspire to better outcomes a "meta-capacity." Genicot and Ray (2014) also note that income and aspirations work in a self-reinforcing way and are jointly determined. That is, higher income leads to higher aspirations, which begets higher income. Specifically relating to academic achievement, a number of studies find an important role for the expectations of both students and their parents in determining educational outcomes. Eccles (1983) explores expectancy-value theory and its relation to education, finding that greater expectations of success motivate students to do well. Jacob and Wilder (2011) find that students' expectations regarding schooling remain to be effective predictors of educational outcomes, even after controlling for a number of other student characteristics related to educational attainment. These authors also point to differences in expectations across income and demographic groups, citing a strong rise in the expectations of women and persistent differences across gender and race. Attanasio and Kaufmann (2009) survey high school and college students in Mexico and their parents. They find that students' and parents' expected returns from schooling matter for high school completion rates and that students' expectations matter for college completion rates. Kaufmann (2014) further uses these surveys of Mexican students' expectations to show that the differences in expectations across income groups cannot be a significant factor in explaining the differences in educational outcomes. We also find that while differences in subjective probabilities have effects on educational outcomes, they do not explain much of the differences in educational outcomes across groups. Jensen (2010) does a field experiment where he informs students of the actual returns to schooling and finds that students respond to this information through increasing graduation rates. Betts (1996) finds that U.S. students' expectations of the returns to schooling vary substantially and vary with income. Our survey data gauge the probability of completion and not expected income after completion. However, the subjective probability of completion is instrumental in determining the expected returns to schooling.

Bailey and Dynarski (2011) note the growing achievement gaps between children from low and high income families in terms of college entrance and graduation rates. Whether this is due to differences in the expectations of completion or something else is an open question. However, Case and Katz (1991) use a survey of Boston youth to show that students are more likely to drop out of high school if their parents or peers did. Murnane (2013) points out the dramatic differences in the graduation rates of youths from low and high income families. Bailey and Dynarski (2011) and Reardon (2012) highlight how this