



Education choices and returns to schooling: Mothers' and youths' subjective expectations and their role by gender



Orazio P. Attanasio^{a,*}, Katja M. Kaufmann^{b,**}

^a University College London, Gower Street, London WC1E6BT, UK, Institute for Fiscal Studies, BREAD, CEPR and NBER

^b Department of Economics and IGIER, Università Bocconi, Via Roentgen 1, 20136 Milan, Italy

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ABSTRACT

In this paper we investigate the role of expected returns to schooling and of perceived risks (of unemployment and earnings) as determinants of schooling decisions. Moreover, our data also allow us to analyze whether youths' and/or mothers' expectations predict schooling decisions, and whether this depends on the age and gender of the youth. In particular, we use Mexican data that contain labor market expectations of mothers and youths. We find that expected returns and risk perceptions are important determinants of schooling decisions, the latter in particular from the perspective of the mother. Boys' expectations predict the decision to enter college, but not to enter high school. While girls' own expectations do not predict either of the two educational decisions, mothers' expectations are particularly strong predictors of their daughters' decisions.

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1. Introduction

The goal of this paper is to improve our understanding of educational decisions among poor Mexican households in two dimensions. First, we investigate what important determinants of schooling decisions are and whether they differ for male and female youths. We are interested in the role of expectations about monetary returns to schooling and of perceptions of labor market risks (i.e. earnings and unemployment risk) for different schooling choices. Second, we also analyze whether youths' own and/or mothers' expectations about future labor market outcomes for the youth predict schooling decisions and how this depends on the gender and age of the youth.

To address these questions we use a survey of Mexican junior and senior high school graduates that elicits youths' or mothers' beliefs about future labor market outcomes for different scenarios of the highest schooling degree. In addition, we have information about actual schooling choices and an extensive set of controls.

Surprisingly little is known about the importance of gender differences in the determinants of schooling choices and about the role that youths play in making these choices. To what extent do expected returns in the labor market and perceived risks play a different role in

the schooling decisions for boys and girls? Do the expectations of youths and mothers about the return of education in the labor market differ and which of these expectations, if any, matter for schooling decisions? Are there gender differences in terms of whether youths' own expectations and/or their mothers' expectations matter? How does this depend on the age of the youth? These questions are important for the effective design of programs intended to increase schooling among poor households as well as for understanding gender differences in educational attainment.

Much of the existing literature on schooling decisions uses earnings realizations to measure or proxy for expected returns to education. This approach relies on strong assumptions about people's information sets and about how people form expectations. Moreover, such an approach has to deal with the issue that, for every education level, we only observe the earnings of individuals who select that education level. By using data on subjective expectations of earnings under different scenarios, we avoid these problems.

We study two schooling decisions among poor urban Mexican households: that of youths who have just finished junior high school to enroll (or not) in senior high school, and that of youths who have completed senior high school to enroll (or not) in college. We use answers to questions about subjective expectations to construct measures of expected earnings, perceived earnings risk and perceived unemployment risk held by mothers and youths for different schooling scenarios, and study the extent to which these expectations affect the enrollment choices of male and female youths.

* Corresponding authors.

** Corresponding authors. Tel.: +39 02 5836 3370.

E-mail addresses: o.attanasio@ucl.ac.uk (O.P. Attanasio), katja.kaufmann@unibocconi.it (K.M. Kaufmann).

We first show that there are important differences in mothers' and youths' own expectations about future earnings of one and the same person, the youth herself. This evidence in itself constitutes a strong justification for using direct measures of expectations: using realized earnings to infer expectations would not allow accommodating this feature without making assumptions in what direction and by how much the expectations of youths and parents differ. Moreover, our data provide us with the possibility of testing whether mothers' and/or youths' expectations are predictive of schooling choices. We therefore proceed to estimate a model of schooling decisions to measure the importance of expected returns to education for boys and girls.

Obviously our exercise is not without problems, arising in part from limitations to the data available to us. One issue that we need to deal with is the fact that the expectation questions are answered either by the youth or by the mother and never by both. In addition to the obvious limitation of not being able to test directly whether both expectations determine schooling choices, observed (average) differences in expected returns between youths and mother could be driven by the selection process determining who answers the questionnaire. In what follows, we discuss what we believe is a plausible instrumental variable approach to deal with this problem. More generally, while the data we use are unique, in that they elicit several points of the subjective distribution function for the returns to education, they are not without a number of limitations, ranging from the fact that we only have three points of the distribution function, to the timing of the survey and education choices. These limitations impose on us the need for some strong assumptions.

We discuss these issues at length in Section 5 (and other sections) and provide a number of necessary caveats. Our results, however, seem to indicate that expected returns and risk perceptions are important determinants of schooling decisions, the latter in particular from the perspective of the mother. Boys' own expectations predict the decision to enter college, but not to enter high school. While girls' own expectations do not predict either of the two educational decisions, mothers' expectations are particularly strong predictors of their daughters' decisions. These results are robust to a number of changes and modeling choices.

1.1. Related literature

Our paper is related to a growing literature using data on people's subjective expectations to understand educational decisions.¹ Dominitz and Manski (1996) were the first to elicit subjective expectations of earnings for different schooling degrees, but did not analyze the link between earnings expectations and investment into schooling. More recently, a number of papers investigated the link between subjective expectations of earnings and schooling choices in different contexts and with different methodologies and objectives, including Arcidiacono et al. (2012), Jensen (2010), Kaufmann (forthcoming), Nguyen (2008) and Stinebrickner and Stinebrickner (2012). Relative to these papers, we address several complementary questions making use of the unique features of the Mexican data.

One novel aspect of this paper is our focus on gender differences in the determinants of the decision to enroll in senior high school and in college in urban Mexico. The only paper we know of that uses data on subjective expectations (but not on risk perceptions) to understand gender differences is by Zafar (2009), who analyzes the college major choice of undergraduate students at the Northwestern University. More recently, Reuben et al. (2013) investigate whether behavioral

biases and preferences explain gender differences in college major choices and expected future earnings.²

The second novel aspect of our paper is the emphasis on the differences between mother and youth expectations and the attempt to estimate their different roles. In general, we know little about the role of children in household decisions. Instead children have been modeled as household public goods (see, e.g., Blundell et al., 2005) or incorporated through the "caring preferences" of their parents (see, e.g., Bourguignon, 1999). Notable exceptions, in that they consider the possibility of youths as decision makers, but in different contexts, are Berry (2011), Dauphin et al. (2008), Dinkelman and Martinez (forthcoming) and Giustinelli (2011).

1.2. Outline

The rest of the paper is organized as follows: In Section 2, we start with a description of the survey that we use and, in particular, the module on subjective expectations. In Section 3, we present some descriptive evidence on our data and focus, in particular, on the subjective expectations data and their plausibility. We also discuss our identification strategy to compare the subjective expectations of mothers and youths and present our first result which indicates the presence of significant differences in expected returns. In Section 4, we discuss the empirical model used to analyze the role of youths' and mothers' expectations about future labor market outcomes in their education decisions and how this depends on age and gender. Section 5 discusses the paper's main results. In this section, we also discuss some issues related to the use of subjective expectations and present some robustness tests. Finally, Section 6 concludes.

2. Subjective expectations about returns to education

The conditional cash transfer program *Oportunidades*, previously known as PROGRESA, has been associated since its inception with attempts to evaluate its impacts. In this spirit, when the program introduced a new component in 2002/3, known as *Jóvenes con Oportunidades*, an evaluation aimed at measuring its impact was started. The data that we use was collected in 2005 as part of that evaluation. In addition to standard variables, the survey contained a detailed subjective expectations module which we use extensively. In this section, we describe the data and its structure. We also describe in some detail the module used to elicit information on subjective expectations and report some evidence on the quality of these data.

2.1. The survey

The evaluation survey of *Jóvenes con Oportunidades* was conducted in the fall of 2005. *Jóvenes con Oportunidades* provides an additional grant to youths in the last three years of high school (preparatoria). This grant is deposited into a bank and can be accessed only upon graduation, if the recipient engages in one of several activities (such as going to college or starting a micro enterprise). Alternatively, the recipient has to wait for a year during which time the amount, about US\$300, accumulates at the market interest rate.

The primary sampling units of the evaluation survey are individuals who have just graduated from senior high school or from junior high school and who are eligible for *Jóvenes con Oportunidades*. There are three eligibility criteria for this program: being in the last year of junior high school (9th grade) or attending senior high school (10 to 12th grade), being younger than 22 years of age, and being from a family that benefits from *Oportunidades*.

¹ See the survey paper on the use of subjective expectations data by Manski (2004). Delavande et al. (2011) survey the literature that uses data on subjective expectations in developing countries and find that also in this context individuals are willing to answer the expectations questions and understand them reasonably well (sometimes with the help of visual aids).

² Two recent papers who link schooling choices and returns to schooling, with some emphasis in gender differences are Abramitzky and Lavy (2012) and Jensen (2012). These papers, however, do not use subjective expectations data.

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