Inequality in human capital and endogenous credit constraints

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Overview

BIG QUESTION

To investigate the **determinants of inequality in human capital**, giving emphasis on the role of the **credit constraints**

Model

- Develop a model in which individuals face uninsured human capital risks and invest in education, acquire work experience, accumulate assets, and smooth consumption
- Parental transfers
- Agents can borrow from the private lending market and from government student loan programs
- They introduced a **natural borrowing limit**, following the one by Aiyagari (1994), but incorporating endogenous labor supply, human capital accumulation, psychic costs of working, and age

Summary

- Estimation of the model
- Quantify the effects of cognitive ability, noncognitive ability, parental education, parental wealth, wages
- Counterfactual experiments - subsidy tuition and student loan limits
- Equalizing experiments - cognitive and noncognitive abilities

Comments

- Model
- Algebra
- Counterfactuals and equalizing experiments