1 DATA

The data are from the 1979 youth cohort of the National Longitudinal Survey of Labor Market Experience (NLSY79). The NLSY79 consists of 12,686 individuals, approximately half of them men, who were 14-21 years old as of January 1, 1979. The sample consists of a core random sample and an oversample of blacks, Hispanics, poor whites, and the military. One unique characteristic of the NLSY79 is that from 1985, it has comprehensive asset information for each respondent. In any intertemporal labor supply model, the shadow price of assets, or marginal utility of wealth, plays an important role as linking period-by-period decisions intertemporally. In the past, the Panel Study of Income Dynamics (PSID) was frequently used to estimate such models, and researchers either first differenced away the shadow price of assets, as in [**?**], or used the marginal utility of food consumption as a proxy for the shadow price of assets, as in [**?**] or [**?**]. It was necessary for researchers analyzing the PSID to use food consumption data because that is the only consumption data it contains. Here we use the asset data directly to either measure the shadow price of assets, or, using the intertemporal budget constraint, back out total consumption.

We use the white male sample of the NLSY79 data. We only use males who are at least 20 years old and have completed schooling. In our analysis, we treat schooling as exogenous. Since people can either accumulate human capital by on the job experience or schooling, omission of the schooling decision can be an important source of bias. By only using data beginning from the year after the respondent last attended school, we hope to minimize the potential bias.[9] Also, we censor anybody who served in the military from the sample. [appendixA3]Appendix A.3 describes in more detail how we constructed the data.

MeanAgeProfiles Since the NLSY79 only has asset data beginning in 1985, and the asset data in 1991 is missing, we recover the missing assets using the intertemporal budget constraint as discussed in the previous section. Table 1

[9]The failure to treat school attendance as a choice variable potentially creates two types of biases. Suppose that once people leave school they rarely return. If people decide when to leave school based on the wage draws they receive (i.e., the shock to human capital $\epsilon_{1,t+1}$ in Equation eq:HCevolution), then people will tend to have relatively high levels of wages (human capital) in the first period after leaving school. If the wage process exhibits any subsequent mean reversion, this may lead to understatement of the gradient of wages with respect to experience in the early postschool years. This would, in turn, cause us to underestimate the return to human capital investment in the early postschool years, which would cause us to underestimate the i.e.s. Suppose on the other hand, that people often return to school in periods when they receive very low wage draws. Failure to account for this is analogous to ignoring corner solutions in labor supply, which we have argued would be likely to bias estimates of the i.e.s. toward zero. In any case, omitting the schooling choice, as well as omitting the choice of working zero hours, may result in bias in our estimated parameters. We left those choices out of the model because (1) it imposes even more computational burden in the estimation routine, and (2) most of the labor supply literature, such as [**?**], [**?**], and [**?**] focus exclusively on workers with positive hours and omit schooling choices from their models as well. But estimating intertemporal labor supply models with corner solutions and schooling choices would be a promising future line of research. [**?**] estimate such a model, but they discretize the hours choices.