

Education Policies, Fertility Differentials, and Macroeconomic Outcomes*

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Abstract

In most high-income countries, college graduates have fewer children and invest more in their children's education than non-college graduates. Considering this fertility differential, what are the macroeconomic consequences of college financial aid policy? I construct a heterogeneous-agent general-equilibrium overlapping-generations model with choices regarding fertility, college enrollment, and inter vivos transfers. Fertility choices are irreversible, and households make the choice in the presence of uncertainty regarding their future income and children's characteristics. The calibrated and validated model demonstrates that income-tested college subsidy provides partial insurance against costly states associated with having a child, especially for college graduates, stimulating the fertility of ex-post-ineligible parents whose children do not receive the subsidy. This fertility response amplifies the policy effects on college enrollment and output, operating through intergenerational linkages and distribution changes.

Keywords: Fertility, education, intergenerational linkages

JEL codes: C68, I28, J13, J24

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