Insuring the Risks of Fertility Choices:
The Macroeconomic Roles of Education Subsidy*

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Abstract

This paper studies the macroeconomic roles of college education subsidies by constructing a new general-equilibrium (GE) model with fertility choices. Fertility choices are irreversible, and thus, having (more) children will result in very low consumption upon future bad income shock, which comes at substantial utility costs. My calibrated and validated model demonstrates that an income-tested college subsidy provides partial insurance against such costly states associated with having children under income uncertainty. More educated parents benefit more from this insurance, and the associated fertility responses amplify the policy effects on inequality reduction, welfare improvement, and raising educational attainment and aggregate output in the long run, operating through the GE effects and intergenerational linkages.

Keywords: Fertility, education, overlapping-generations, college subsidy
JEL codes: C68, I28, J13, J24