

# Human Capital Adjustments and Labor Market Resilience: Evidence from Linked Education and Earnings Data

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## Abstract

Negative labor demand shocks can have lasting consequences on the labor market outcomes of both prime-aged workers and recent labor market entrants, known as “scarring effects.” This paper studies whether individuals coming of age can avoid the same fate by adjusting their human capital investments. I use student-level administrative data from Texas and compare changes in educational outcomes and later-life earnings across cohorts of students living in areas that are more or less exposed to Chinese import competition. Consistent with reductions in the opportunity cost of schooling, students exposed to larger shocks were 4% more likely to enroll in college and 9% more likely to earn a bachelor’s degree. Moreover, consistent with students internalizing salient changes to lifetime earnings premia after the shock, exposed students completed more courses eligible for college credit while in high school and shifted away from studying fields related to industries exposed to import competition toward those associated with unaffected sectors in both high school and college. Following students into the labor market, I provide evidence that these adjustments buffered against more than 90% of the shock’s scarring effects on later-life earnings.

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