

ECON742: Questionnaire 9
"Education and self-selection"

The questions are based on Rosen, S. and R. Willis (1979), "Education and Self-Selection", The Journal of Political Economy, 87 (5), Part 2: Education and Income Distribution S7-S36.

1. Describe the main question that Willis and Rosen seek to address? Why can not we simply regress the number of years of education on wages to get the causal impact of education? Describe the two major theories according to which individuals would self-select for their studies: ability bias and comparative advantage. Which theory makes more sense according to you? What is the method used by Willis and Rosen to test these two theories?
2. Summarize quickly the model used by Willis and Rosen according to the notations used in the course. How is it possible to test econometrically the difference between these two theories?
3. By considering Table 1, can you tell if there are systematic differences between individuals who left school after highschool and those who continued? Can the group that stopped after highschool be considered a good control group?
4. Considering columns 1 and 2 of Table 2, can you tell which variables affect participation in education after highschool?
5. By considering Table 3, interpret the coefficients in front of λ_a and λ_b . What does that mean? Is this evidence for the theory of comparative advantage?
6. By looking at column 3 and 4 of Table 2, find the innovation of this specification. What do the coefficients of initial earnings and earnings growth mean? Is this evidence for the theory of comparative advantage?
7. Criticize the analysis of Willis and Rosen. In particular, what are the variables omitted from the wage regression, but included in the decision to participate? Does that sound convincing?