

Marital Sorting and Cross-Country Differences in Intergenerational Earnings Persistence

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Abstract

In a real economy, decisions on investments in child human capital of children are made by families rather than by atomistic parents as is typically assumed in the literature. This paper incorporates family formation into an otherwise standard dynastic framework with human capital accumulation. The study finds that accounting for differences in taxation and education policies between the U.S. and 10 OECD countries is sufficient to replicate cross-country variations in the degree of assortative matching and its positive correlation with the persistence of intergenerational earnings. Positive assortative matching is crucial to a model's ability to generate realistic levels of intergenerational earnings correlation observed in the data.

JEL Codes: E62, H31, H52, I24, J12, J62.

Keywords: Marital sorting, Intergenerational earnings persistence, Taxation, Education subsidies.

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