The Effect of Parents’ Education and Earnings upon the Education and Earnings of Their Children

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Abstract

A structural model is proposed in which parents affect their children directly through their education and earnings, and indirectly through inherited ability to earn and learn. By taking account of inherited ability the causal effect of parental outcomes for education and earnings upon the education and earnings of their children is identified. A generated regressor methodology is used to estimate the ability to learn and earn of Israeli parents. It is shown that the education and earnings of children are affected by these generated regressors. It is also shown that parents’ money and education matter for their children’s education and earnings. However, these causal effects turn out to be very small.