"Transition to Higher Education and Employment of Young Israelis"

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Abstract

The purpose of this dissertation is to study the transition of young Israelis from high school to college education and employment. The study is divided into three chapters. The first chapter studies the existence of liquidity constraints on college enrollment using a reduced form model. The second chapter investigates the same constraints using a structural model. Both models are estimated on a sample of Israeli-born Jewish males born in 1974. The third chapter looks at the duration of any initial period of unemployment experienced during the transition from high school to a first stable job. This model is estimated on a sample of the 1974-1977 birth cohorts. The study uses a unique dataset created by using a combination of multiple sources of information provided by the Central Bureau of Statistics.

In the literature, there is a great deal of debate over the existence of liquidity constraints i.e., the inability of individuals to afford college tuition during college going years. Studies such as Cameron and Heckman (1998, 1999, and 2001) and Carneiro and Heckman (2002) found little or no evidence of liquidity constraints. In contrast, studies such as Kane (1994), Ellwood and Kane (2000), and Belley and Lochner (2007), found evidence of liquidity constraints.

In the first chapter, the results of the reduced form analysis show that there are liquidity constraints. College enrollment would be 42% if all individuals had family income in the top income quartile, compared to 38% if all individuals had family income in the bottom income quartile, holding constant all other variables. Thus, the gap in enrollment due to family income is 4 percentage points - a liquidity constraint on a smaller scale than that was found by Ellwood and Kane (2000) based on US data (9 percentage points). The results also show that enrollment is substantially affected by parental education, after controlling for high school performance, family income and several other factors. However, the most important factor in determining enrollment is high school performance.

The reduced form model of the first chapter has several deficiencies. It deals with the decision to attend college separately from the decision to join the labor market, and assumes that wages are determined exogenously. It also has difficulty taking self-selection into account. Thus, in the second chapter, we estimate a structural dynamic discrete choice model that would overcome these deficiencies. In the model, several factors act through different channels to affect college enrollment, employment and wage outcomes. Family background affects these

outcomes through high school performance and unobserved ability. In addition, family income (through parental transfers) and tuition are allowed to affect these outcomes by affecting the net consumption value *during* college enrollment.

We found that family income influences pre-college achievements (thus also college enrollment) more heavily than it does the decision to attend college at typical college-going ages. In other words, family income has little effect on enrollment, beyond its effect through ability: first, because we found that family income has an important effect (along with parental education) on high school performance (specifically, eligibility for matriculation) and on ability (individual type in the model); second, because we found that family income has little effect on parental transfers.

Our simulation exercise shows that an additional NIS 10,000 in annual family income per-capita for all families would increase college enrollment by 4 percentage points - from 41% to 45%. We also found that changes in tuition influence enrollment. For example, a NIS 10,000 decrease in tuition – a reduction that would almost eliminate tuition for B.A. studies – would increase enrollment by 21 percentage points - from 41% to 62%. By comparison, Keane and Wolpin (2001) found that a college subsidy of $3,000 per semester would increase enrollment from 45% to 75%.

Our contribution to the existing literature is in the way we relate the role of family background variables to college enrollment. Specifically, the model allows us to distinguish between the effects of family income: one, on pre-college achievement factors (and, eventually, on college enrollment); the other, on parental financial transfers during college years. As a result, we gain more insight into how family income impacts college enrollment. This also contributes to the study of the effect of family background and tuition on college enrollment in Israel.

The third chapter studies the transition process of young Israeli adults to their first stable job that lasts for at least six months, using a discrete-time proportional hazards model. We found positive duration dependence during the first three years after controlling for unobserved heterogeneity, that is, the prospects of exiting unemployment to a stable job increase with the length of the unemployment spell. This result suggests that the longer the duration of unemployment, the more individuals are willing to reduce their reservation wage in order to increase their employment prospects.