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April 2009

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## ABSTRACT

### Choosing the Field of Study in Post-Secondary Education: Do Expected Earnings Matter?\*

This paper examines the determinants of the choice of the major when the length of studies is uncertain, by using a framework in which students entering post-secondary education are assumed to anticipate their future earnings. For that purpose, we use French data coming from the 1992 and 1998 *Génération* surveys collected by the *Centre d'Etudes et de Recherches sur l'Emploi et les Qualifications* (CEREQ, Marseille). Our econometric approach is based on a semi-structural three-equations model, which is identified thanks to some exclusion restrictions. We exploit in particular exogenous variations in the earnings returns associated with the majors across the business cycle, in order to identify the causal effect of expected earnings on the probability of choosing a given major. Relying on a three-component mixture distribution, we account for correlation between the unobserved individual-specific terms affecting the preferences for the majors, the unobserved individual-specific factors entering the equation determining the length of studies within each major, and that affecting the labor market earnings equation. Following Arcidiacono and Jones (2003), we use the EM algorithm with a sequential maximization step to produce consistent parameter estimates. Simulating for each given major a 10 percent increase in the expected earnings suggests that expected earnings have a statistically significant but quantitatively small impact on the allocation of students across majors.

JEL Classification: J24, C35, D84

Keywords: post-secondary education, major choice, returns to education, EM algorithm

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# 1 Introduction

Over recent years, the French post-secondary education system has been the subject of much debate and sharp criticism. In a report for the French *Council of Economic Analysis*, Aghion and Cohen (2004) emphasize the main difficulties that this system, and especially the French university, have to cope with. Pointing out, among others, the high dropout rate in French universities, they argue that the French post-secondary education system needs urgently to be reformed. In this context, it seems in particular crucial to understand students' educational choices.

In this paper, we focus on the effect of expected labor market income on the choice of the post-secondary field of study. In particular, we assess the sensitivity of students' major choices to expected earnings by estimating a semi-structural model of post-secondary educational choices. More precisely, we try to disentangle the simultaneous effects of, on the one hand, preferences and abilities, and on the other hand, expected returns, on the choice of major. In the existing applied literature, several papers explicitly consider the impact of expected labor market earnings on schooling choices. A first set of papers study these issues by using a rational expectations framework. In a seminal paper, Willis and Rosen (1979) allow the demand for college education to depend on expected future earnings.<sup>1</sup> Assuming that students form rational (i.e. unbiased) expectations, these authors show that the expected flow of post-education earnings are strong determinants of college attendance. Berger (1988) also focuses on the impact of expected earnings on the individual demand for post-secondary education: his results show that, when choosing college majors, students are more influenced by the expected flow of future earnings than by their expected initial earnings.<sup>2</sup> Then, following Keane and Wolpin (1997), several econometricians have estimated structural dynamic models of schooling decisions (Cameron and Heckman, 1998, 2001; Eckstein and Wolpin 1999; Keane and Wolpin, 2001; Belzil and Hansen, 2002; Lee, 2005).<sup>3</sup> Their papers assume that students form rational earnings expectations conditional on schooling decisions, and that the expected earnings affect in turn their educational choices. Recently, Arcidiacono (2004, 2005) has considered sequential models of college attendance, accounting both for the demand as well as the supply side of schooling, in which the value of each major depends on the corresponding expected flow of earnings. However, in the literature quoted above, papers by Berger (1988) and Arcidiacono (2004, 2005) are the only ones focusing on the effect of expected earnings on the choice of major and not on the educational level. Our paper builds on this literature by assuming that students face an uncertain length of studies when choosing their post-secondary major. As we will see further, including uncertainty in terms of level of education within each major seems to be necessary to correctly account for the observed educational paths.

A second set of papers examines the validity of the rational expectations assumption in the

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<sup>1</sup>On a related ground, Altonji (1993) estimates a sequential model in which schooling decisions depend on expected returns to education, without explicitly considering the choice of major.

<sup>2</sup>Several other articles have shown that there exist some large differences in earnings across majors in the U.S. (see, for instance, James et al., 1989; Loury and Garman, 1995; Brewer, Eide and Ehrenberg, 1999) However, none of these papers model the choice of the major itself as a function of expected earnings.

<sup>3</sup>Unlike the preceding papers which rely on partial equilibrium settings, Lee(2005) specifies and estimates a general equilibrium model of work, schooling and occupational choices.

context of educational choices. More precisely, these papers consider the specification and the estimation of schooling decision models in which the rational expectations assumption is relaxed. In particular, Freeman (1971, 1975) and Manski (1993) have proposed models assuming that individuals have *myopic* expectations relatively to their potential labor market earnings. Within such a framework, students are assumed to form their wage expectations by observing the earnings of comparable individuals who are currently working. According to Manski's terminology, such expectations are computed "in the manner of practicing econometricians". More recently, Boudarbat and Montmarquette (2007) examine the effect of expected earnings on the choice of the field of studies in Canada; for that purpose, they estimate a mixed multinomial logit model applied to the choice of major, using a sample of Canadian university graduates. These authors also relax the assumption of rational expectations; assuming myopic expectations, the predicted earnings are computed from the wages of young individuals who have the same education level and who are currently working.

Our paper contributes to the literature on the effects of expected earnings on schooling choices in several ways. First, unlike the previous papers, our approach concentrates on the effects of expected earnings on the choice of the major, in a framework in which the length of post-secondary studies is uncertain to the individual when choosing her major. Stylized facts appear to be consistent with such a framework.<sup>4</sup> Another interesting feature of our paper lies in the fact that we exploit the arguably exogenous variation across the business cycle in the relative returns to each major in order to identify these elasticity parameters.

Using the parameter estimates of our model, we calculate the elasticities of major choices to expected earnings by simulating exogenous variations of earnings distribution. These elasticities appear to be very low, which means that the choice of a major is mainly driven by non-pecuniary factors.

Our study has two main restrictions. First, in the absence of appropriate information allowing identification of risk-aversion coefficients, we cannot identify a model incorporating individual attitudes towards risk.<sup>5</sup> However, by allowing for heteroskedasticity in the variance of log-earnings and by imposing a CRRA utility function with a fixed risk aversion parameter, we then estimate an additional specification of our baseline model. Second, we also ignore the possibility for the student to switch major during her post-secondary studies. Such a switch is potentially an endogenous event whose treatment would make the model much more complicated. However, stylized facts show that this last assumption is sensible for the pooled majors that we consider (see Table 8, Appendix A).

The remainder of the paper is organized as follows. Section 2 describes our econometric model. The specification of this model and the likelihood function are discussed in Section 3. Section 4 describes the data and presents some preliminary statistics, while Section 5 presents the identification strategy and Section 6 contains the estimation and simulation results. Finally, Section 7 summarizes and concludes.

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<sup>4</sup>Indeed, descriptive statistics from the French *Panel 1989* database (DEPP, French Ministry of Education) show that most students complete a final level of education which is different from the level they wanted to reach when entering college (see Appendix A, Table 9).

<sup>5</sup>Among recent studies addressing this issue, the reader can consult papers by Belzil and Hansen (2004), Saks and Shore (2005), Brodaty, Gary-Bobo and Prieto (2006).

## 2 The econometric model

After graduating from high-school, individuals are assumed to choose their field of post-secondary study (major). In this major, they reach some (partly random) level of education. Note that we restrict our analysis to individuals who attend university.<sup>6</sup> Once they leave the post-secondary education system, they are supposed to enter the labor market. Thus we consider a sequence of three events:

- First stage: when entering college, each student chooses her post-secondary major;
- Second stage: she keeps on studying in the field chosen in the first stage, until she reaches an endogenously determined level of education (dropout, college, BA degree, MA degree, graduate);
- Third stage: she leaves the post-secondary education system and participates in the labor market.

Following Heckman and Singer (1984), we assume that there are  $R$  types of individuals,  $\Pi_r$  denoting the proportion of type  $r$  in the population of students.<sup>7</sup> Individuals are supposed to know their type which is not observed by the econometrician. Within this framework, unobserved heterogeneity (i.e. unobserved preferences for each major, unobserved schooling ability and unobserved labor market productivity) is type-specific.

### 2.1 Stage 1: Choice of the major

After graduating from high-school (and getting the final high-school diploma, called “Baccalauréat” in France), the individual who decides to continue studying must choose the college major, hereafter indexed by  $j^*$ .<sup>8</sup> We assume that this choice is made among a set of  $M$  majors. Furthermore, we assume that the chosen field  $j^*$  depends on the individual’s expectations concerning both the education level that she will achieve within this major (stage 2), and her future labor market earnings, which are assumed to depend on her educational level (stage 3). An important underlying assumption is that future earnings as well as the highest level of education reached in field  $j^*$  are partly uncertain.<sup>9</sup>

For a student of type  $r$ , let us denote by  $V_j^r$  the value function associated with the choice of field  $j$  ( $j = 1, \dots, M$ ). This value function is assumed to be composed of two additive elements,

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<sup>6</sup>The argument justifying our choice to focus on individuals attending university is detailed in the section devoted to the data.

<sup>7</sup>Examples of econometric models of schooling decisions relying on a similar assumption can be found in Keane and Wolpin (1997, 2001), Eckstein and Wolpin (1999), Cameron and Heckman (1998, 2001), Belzil and Hansen (2002, 2004), Arcidiacono (2004, 2005) and Lee (2005).

<sup>8</sup>We omit the individual subscript for the sake of simplicity.

<sup>9</sup>We suppose that each individual has an idiosyncratic propensity to achieve a high level of education. This propensity is partly affected by random factors, such as her own health status and unexpected changes in her family environment. These factors are *ex ante* unknown by the individual when choosing her major, and then revealed when attending university.

respectively denoted by  $v_{0j}$  and  $v_{1j}^r$ . The first term  $v_{0j}^r$  represents the *intrinsic* value (i.e. the consumption value) of the major, while  $v_{1j}^r$  may be considered as the *investment value* of a post-secondary education in field  $j$ . It is a function of the sum of the expected future average (monthly) labor market earnings which are associated with the  $L + 1$  educational levels that can be reached within field  $j$ , each of these expected values being weighted by the probability  $\Pr(K = k | J = j)$  to reach the  $k$ -th educational level ( $k = 0, \dots, L$ ) within field  $j$  ( $j = 1, \dots, M$ ). Here  $k = L$  denotes the highest educational level that can be reached within major  $j$ , and  $k = 0$  corresponds to the case where the student drops out from the major before terminating the first year of college. Then, for a student of type  $r$ , the value  $V_j^r$  of major  $j$  can be written as :

$$V_j^r = v_{0j}^r + v_{1j}^r, \text{ for } j = 1, \dots, M \quad (1)$$

where

$$v_{1j}^r = \alpha \sum_{k \in \{0, 1, \dots, L\}} \Pr(K = k | r, J = j) \cdot E(V_{e(j,k)}^r | r, J = j, K = k)$$

$E(V_{e(j,k)}^r | r, J = j, K = k)$  denoting the expected flow of earnings associated with education  $(j, k)$ , for a student of type  $r$ , and  $\alpha$  being an unknown sensitivity parameter to be estimated.<sup>10</sup>

The subcomponent  $v_{0j}^r$  can be interpreted as the non-pecuniary value of field  $j$  for a student of type  $r$ . It may correspond to the “social gratification” brought by studying in major  $j$  or to the individual’s taste for this major. We assume that  $v_{0j}^r$  is a linear function of a set of observable individual covariates that affect the attractiveness of field  $j$  (e.g. gender, place of birth, parents’ nationality and profession, past educational history of the student, including the cumulated delay when entering secondary school). It is also depending on a type-specific intercept  $\alpha_{(1,j)}^r$  and on a random term  $u_j$  independent of  $\alpha_{(1,j)}^r$ . Consequently,  $v_{0j}^r$  is specified as

$$v_{0j}^r = \alpha_{(1,j)}^r + X_1' \beta_1^j + u_j$$

where  $\beta_1^j$  is a parameter vector associated with  $X_1$  and specific to field  $j$ . The individual chooses the education field  $j^*$  that corresponds to the highest value function:

$$j^* = \arg \max_{j \in \{1, \dots, M\}} V_j^r$$

## 2.2 Stage 2: Determination of the length of studies

Once a student of type  $r$  has chosen her major  $j^*$ , she studies until she reaches a level  $k_j^*$  of education within field  $j$ . We assume that this level  $k_j^*$  is an element of a set of  $L + 1$  possible levels corresponding to the different degrees which may be obtained in each major;  $k = 0$  corresponds to a dropout, which occurs when a student leaves university during the first year of college (without any post-secondary degree),  $k = 1$  refers to the degree called “DEUG” in France which is generally obtained after two years of college,  $k = 2$  corresponds to the BA

<sup>10</sup>The functional form of probabilities  $\Pr(K = k | r, J = j)$  is specified in the next section.



degree (called “Licence” in France),  $k = 3$  corresponds to the MA degree (“Maîtrise”) and  $k = L = 4$  refers to the Graduate level.

The length of studies  $k_j^*$  within major  $j$  is supposed to be determined by the individual propensity  $\tilde{k}_j$  to succeed in long post-secondary studies within this major.<sup>11</sup> More precisely, we assume that the length of studies  $k_j^*$  is generated by the following latent model:

$$k_j^* = \begin{cases} 0 & \text{if } \tilde{k}_j^r \leq s_1 \\ 1 & \text{if } s_1 < \tilde{k}_j^r \leq s_2 \\ \vdots & \\ L & \text{if } s_L < \tilde{k}_j^r \end{cases}$$

where  $\{s_1, \dots, s_L\}$  are latent (unknown) thresholds that correspond to the minimum ability levels required to obtain the different degrees. The latent propensity  $\tilde{k}_j^r$  is assumed to depend linearly on observable covariates  $X_2$  (such as gender, nationality, parents’ profession, etc.). It also depends on a type-specific intercept  $\alpha_2^r$  and on an independent term  $v$  which is unknown *ex ante* by the student when she decides to enter college. Thus the propensity  $\tilde{k}_j^r$  is defined as:

$$\tilde{k}_j^r = \alpha_2^r + X'_{2,j}\beta_2 + v \quad (2)$$

where  $\alpha_2^r$  and  $\beta_2$  are unknown parameters to be estimated. In this expression,  $X_{2,j}$  is a vector of exogenous regressors including individual characteristics but also covariates that are specific to the major  $j$ . Namely, we allow the average proportion of college students in the same major and in the same university to affect the length of studies.<sup>12</sup> In the absence of variables plausibly affecting the choice of major but not the length of studies, we choose to exclude major-specific dummies in  $X_{2,j}$  since the related coefficients would only be identified through nonlinearities.

Note that, in our framework, the length of studies is not the number of years spent effectively in post-secondary education, but the terminal level of education that is reached by the student, whatever the time spent at the university. We should also remark that we do not account for selection of applicants by the university administration at the entry of college: this seems to be a quite sensible assumption for the French university system.

### 2.3 Stage 3: Labor market earnings

Having obtained the educational level (degree)  $k_j^*$  in major  $j^*$ , the student then enters the labor market. We assume that the labor market is an absorbing state: individuals do not resume studies after entering the labor force. When making her post-secondary schooling decision in the first stage, the individual is assumed to anticipate the impact of the major and of the length of the studies on her future labor market earnings. In order to take both employment and non-employment spells into account, we refer to average *earnings* as the sum of wages weighted

<sup>11</sup>This framework is consistent with an ordered probit model.

<sup>12</sup>This variable is calculated using information coming from the *SISE* database provided by the French Ministry of Education.

by employment spell durations, and unemployment benefits<sup>13</sup> weighted by unemployment spell durations. Hence, the logarithm of the average monthly earnings received over a period of length  $T_{obs}$  (in months) by a worker with education  $(j, k)$  and of type  $r$ , is given by :

$$\overline{\ln w}_{jk}^r = \ln \frac{\sum_{s=1}^{N_e} w_{s,jk} l_s^e + \sum_{s'=1}^{N_u} b_{s',jk} l_{s'}^u}{T_{obs}} \quad (3)$$

with

$$T_{obs} = \sum_{s=1}^{N_e} l_s^e + \sum_{s'=1}^{N_u} l_{s'}^u$$

where  $N_e$  (respectively,  $N_u$ ) is the number of observed employment (unemployment) spells in the individual labor market history,  $w_{s,jk}$  is the monthly wage in the  $s$ -th employment spell,  $l_s^e$  (respectively,  $b_{s',jk}$  is the monthly unemployment benefit in the  $s'$ -th unemployment spell,  $l_{s'}^u$ ) are durations of the  $s$ -th employment (respectively, unemployment) spell, and  $T_{obs}$  is the total length of the observed labor market history of the individual. By definition, we set:

$$V_{e(j,k)}^r = \overline{\ln w}_{jk}^r \quad (4)$$

Thereafter, we focus only on this aggregate notion of labor market earnings, without modeling separately wages and individual probabilities of employment (and nonemployment). This appears to be consistent with the students' behavior when they take their post-secondary schooling decisions: most individuals anticipate future labor market conditions as a whole, without separately taking into account the effects of their educational choices on wages and on employment probabilities.

Labor market earnings depend on the post-secondary educational field and level, namely on the pair  $(j^*, k_j^*)$ . Note that our framework accounts for the earnings gaps, not only across schooling levels (within a given field of study), but also across fields of study (for a given educational level, or degree). Earnings are also supposed to be a function of exogenous and predetermined individual characteristics. For a student of type  $r$ , the average log-earnings equation is assumed to be given by:

$$\overline{\ln w}_{jk}^r = \alpha_3^r + X'_{3(j,k)} \beta_3 + \epsilon \quad (5)$$

where  $X_{3(j,k)}$  is a vector of observed characteristics that may affect labor market earnings, including post-secondary education,  $\alpha_3^r$  represents the type-specific intercept, and  $\epsilon$  denotes an independent random factor that affects the individual's earnings.

### 3 Model specification

Let us recall that the type-specific intercepts are mass points of a discrete distribution with probabilities  $(\Pi_1, \dots, \Pi_R)$  verifying  $\sum_{r=1}^R \Pi_r = 1$ , and that the residuals of the three equations are stochastically independent of these type-specific intercepts.<sup>14</sup>

<sup>13</sup>Unemployment benefits are assumed to be equal to a constant times the former wage received when employed. This constant is taken equal to 0.7 as often done in the literature.

<sup>14</sup>Some covariates introduced in the equations may not be independent of the individual's type. It applies especially to the high school graduation track, which may be in particular related to unobserved preferences for each

### 3.1 Stochastic assumptions

Residuals are supposed to be normally distributed. We assume that the random vector  $(u_1, \dots, u_M)$  affecting the choice equation, and the residuals  $v$  and  $\epsilon$  entering the two other equations are independently distributed.<sup>15</sup> Consequently, the whole vector of residuals<sup>16</sup> is assumed to be distributed as:

$$\begin{pmatrix} v \\ u_2 - u_1 \\ u_3 - u_1 \\ \dots \\ u_M - u_1 \\ \epsilon \end{pmatrix} \sim \mathcal{N}(0, \Sigma)$$

where  $\Sigma$  is the  $(M + 1) \times (M + 1)$  covariance matrix of the model residuals, with  $\Sigma[1, 1] = 1$  and  $\Sigma[2, 2] = 1$  for identifiability reasons. Given the constraints we impose on correlations, the covariance matrix is:

$$\Sigma = \left( \begin{array}{c|cccc|c} 1 & \dots & \dots & \dots & \dots & \dots \\ 0 & 1 & \dots & \dots & \dots & \dots \\ 0 & \Sigma_{32} & \Sigma_{33} & \dots & \dots & \dots \\ \dots & \dots & \dots & \dots & \dots & \dots \\ 0 & \Sigma_{M2} & \dots & \dots & \Sigma_{MM} & \dots \\ \hline 0 & 0 & \dots & \dots & 0 & \Sigma_{(M+1),(M+1)} \end{array} \right) \quad (6)$$

The particular order of the residuals in this vector enables us both to use Cholesky decomposition and to verify our constraints. Thus, if  $\Gamma$  denotes the Cholesky factor for the covariance matrix  $\Sigma$ , we have:

$$\Sigma = \Gamma \cdot \Gamma' \quad (7)$$

where

$$\Gamma = \left( \begin{array}{c|cccc|c} 1 & 0 & 0 & \dots & \dots & 0 \\ 0 & 1 & 0 & 0 & \dots & 0 \\ 0 & \alpha_{32} & \exp(d_1) & 0 & \dots & 0 \\ \dots & \dots & \dots & \dots & \dots & \dots \\ \hline 0 & 0 & \dots & \dots & 0 & \exp(d_{M-1}) \end{array} \right) \quad (8)$$

Note that we impose the positivity of the diagonal terms of matrix  $\Gamma$ . Hence, the Cholesky decomposition of  $\Sigma$  is unique.

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major. Nevertheless, conditioning the type probabilities on the high school graduation track did not change significantly our results.

<sup>15</sup>Correlated unobserved heterogeneity across equations is captured by type-specific random intercepts  $(\alpha_{(1,j)}^r)_{j=1,\dots,M}$ ,  $\alpha_2^r$ , and  $\alpha_3^r$ .

<sup>16</sup>Only differences in utility levels matter in random utility models.

### 3.2 The likelihood function

Under our stochastic assumptions, the contribution to the likelihood function of an individual of type  $r$  who chooses the major  $j^*$ , who reaches the educational level ( $k_j^*$ ), and who gets the average labor market log-earnings  $\overline{\ln w_{jk}^r}$  is:

$$l(j^*, k_{j^*}^*, \overline{\ln w_{jk}^r} | r) = \Pr \left[ \bigcap_{j' \neq j^*} (u_{j'} - u_{j^*} \leq f_r(j^*) - f_r(j')) \right] \times g(\epsilon) \\ \times \Pr \left[ s_{k_{j^*}^*} - \tilde{h}_r < v \leq s_{k_{j^*}^*+1} - \tilde{h}_r \right] \quad (9)$$

where

$$\tilde{h}_r = \alpha_2^r + X_{2,j}' \beta_2 \\ f_r(j) = \alpha_{(1,j)}^r + X_1' \beta_1^j + \alpha \sum_{k=0}^M X_{3(j,k)} \beta_3 \times \left[ \Phi(s_{k+1} - \tilde{h}_r) - \Phi(s_k - \tilde{h}_r) \right] \\ g(\epsilon) = \frac{1}{\sqrt{\Sigma[M+1, M+1]}} \times \varphi \left( \frac{\epsilon}{\sqrt{\Sigma[M+1, M+1]}} \right)$$

with

$$\epsilon = \overline{\ln w_{j,k}^r} - \alpha_3^r - X_{3(j,k)} \beta_3$$

and

$$\Pr \left[ s_k - \tilde{h}_r < v \leq s_{k+1} - \tilde{h}_r \right] = \Phi(s_{k+1} - \tilde{h}_r) - \Phi(s_k - \tilde{h}_r)$$

$\varphi$  and  $\Phi$  being respectively the density and cumulative density functions of the standard normal distribution  $\mathcal{N}(0, 1)$ . Note that the first stage of the econometric model corresponds to the estimation of a multinomial probit model. Within this framework, the choice probabilities  $\Pr(j|r)$  do not have a closed-form expression.<sup>17</sup> As it is detailed in the following section devoted to data, estimations are based on  $J = 3$  aggregated majors. Thus, in stage 1, each choice probability is expressed as a double integral which can be evaluated using usual integration procedures (such as quadrature methods), without the need to rely on a GHK probit simulator.

Unconditional on the type, the contribution to the likelihood function of a student who chooses the field  $j^*$ , who reaches the educational level  $k_{j^*}^*$  and who gets the average labor market log-earnings  $\overline{\ln w_{j^*,k_{j^*}^*}^r}$  follows a finite mixture distribution:

$$l(j^*, k_{j^*}^*, \overline{\ln w_{j^*,k_{j^*}^*}^r}) = \sum_{r=1}^R \Pi_r l(j^*, k_{j^*}^*, \overline{\ln w_{j^*,k_{j^*}^*}^r} | r) \quad (10)$$

where  $l(j^*, k_{j^*}^*, \overline{\ln w_{j^*,k_{j^*}^*}^r} | r)$  denotes the individual contribution to the likelihood given the type  $r$ .

<sup>17</sup>Each choice probability is a  $J - 1$  dimensional integral which must be evaluated numerically.

### 3.3 Estimation

In order to present our estimation strategy, let us introduce some further notations:  $\theta_F$  denotes the whole parameters of the choice equation,  $\theta_L$  those of the equation for the length of studies, and finally  $\theta_W$  those of the wage equation. These vectors do not include type-specific intercepts.

As it is usual for a finite mixture of gaussian distributions, we rely on the Expectation-Maximization (EM) algorithm (Dempster, Laird and Rubin, 1977) to estimate our model. This algorithm works by iterating the two following steps until the stability of the log-likelihood function is reached.

At each iteration  $n$  of this algorithm, we use the values  $(\theta_F^{(n)}, \theta_L^{(n)}, \theta_W^{(n)})$  of the parameter vector, the values  $(\pi_r^{(n)})_{r=1\dots R}$  of the mixture distribution and the values  $(\alpha_r^{(n)})_{(r)}$  of the type-specific intercepts, which are all obtained from the previous iteration of the algorithm. More precisely, the two steps are the following:

▷ *E-step*

For each type  $r = 1, \dots, R$ , and for each individual  $i$ , the posterior probability for the individual  $i$  to be of type  $r$  is:

$$Pr(T_i = r | j_i^*, k_i^*, w_i, X_i) = \frac{\pi_r^{(n)} Pr(j_i^*, k_i^*, w_i | T_i = r, X_i)}{\sum_{r=1}^R \pi_r^{(n)} Pr(j_i^*, k_i^*, w_i | T_i = r, X_i)}$$

where  $T_i$  is the random variable representing the individual type. In the following,  $\pi_{i,r}^{(n)}$  denote these posterior probabilities. Then, we compute the expected completed log-likelihood :

$$\sum_{i=1}^N \sum_{r=1}^R \pi_{i,r}^{(n)} \ln l(j_i^*, k_i^*, w_i | T_i = r, (\Pi_r)_r, (\alpha_r)_r, \theta_F, \theta_L, \theta_W) \quad (11)$$

▷ *M-step*

We maximize the expected completed log-likelihood function in terms of  $((\Pi_r)_r, (\alpha_r)_r, \theta_F, \theta_L, \theta_W)$ .

This maximization can be done in two successive steps.

First we update  $\pi_k^{(n)}$  such as:

$$\pi_r^{(n+1)} = \frac{\sum_{i=1}^N \pi_{ir}^{(n)}}{\sum_{l=1}^R \sum_{i=1}^N \pi_{il}^{(n)}} \quad (12)$$

Then, due to the partial separability of the conditional completed log-likelihood function (Arcidiacono and Jones, 2003), we get three sequential optimization problems since resid-

uals are assumed to be independent across the three equations. Henceforth:

$$\begin{aligned}
& \sum_{i=1}^N \sum_{r=1}^R \pi_{i,r}^{(n)} \ln l(f_i, l_i, w_i | T_i = r, (\Pi_r)_r, (\alpha_r)_r, \theta_F, \theta_L, \theta_W) \\
= & \sum_{i=1}^N \sum_{r=1}^R \pi_{i,r}^{(n)} \ln l(w_i | T_i = r, (\Pi_r)_r, (\alpha_r^W)_r, \theta_W) \\
+ & \sum_{i=1}^N \sum_{r=1}^R \pi_{i,r}^{(n)} \ln l(l_i | T_i = r, (\Pi_r)_r, (\alpha_r^W)_r, (\alpha_r^L)_r, \theta_W, \theta_L) \\
+ & \sum_{i=1}^N \sum_{r=1}^R \pi_{i,r}^{(n)} \ln l(f_i | T_i = r, (\Pi_r)_r, (\alpha_r^W)_r, (\alpha_r^L)_r, (\alpha_r^F)_r, \theta_W, \theta_L, \theta_F)
\end{aligned}$$

It implies that first, we maximize the log-wage equation. Given the estimates of this equation, we estimate the parameters of the equation for the length of studies. Finally, given the previous estimates, we maximize the choice equation. Although this procedure does not yield full information maximum likelihood estimates, Arcidiacono and Jones (2003) show that this method produces consistent estimates of the parameters, with large computational savings.

In order to get standard errors estimates, we rely on a parametric bootstrap procedure, instead of a non parametric one, since this last method is unstable when applied to the EM algorithm. The parametric bootstrap consists first in obtaining reliable parameter estimates denoted  $\hat{\theta}$ . We get  $\hat{\theta}$  by replicating the previously described EM algorithm with different random initial values for the parameters. The iteration process is necessary to ensure the convergence to a global maximum. Then, given  $X$  and  $\hat{\theta}$ , we draw  $H$  vectors of the endogenous variables  $(j_i^h, k_i^h, w_i^h)_{h=1\dots H}$ . For each newly generated data set, we estimate  $\theta_h^*$ . Final parameters and standard errors estimates are calculated as:

$$\bar{\theta}^* = \frac{1}{H} \sum_{h=1}^H \theta_h^* \quad (13)$$

$$\sigma_{\theta^*} = \frac{1}{H-1} \sum_{h=1}^H (\theta_h^* - \bar{\theta}^*)^2 \quad (14)$$

## 4 Data

The model presented above is estimated using French data coming from the ‘‘G eneration 92’’ and ‘‘G eneration 98’’ surveys, which are collected by the *Centre d’Etudes et de Recherches sur l’Emploi et les Qualifications* (CEREQ, Marseille).<sup>18</sup> The ‘‘G eneration 92’’ survey consists of

<sup>18</sup>These data have been previously used by Brodaty, Gary-Bobo and Prieto (2006), who estimate a structural model of individual educational investments in presence of students’ attitudes toward risk.

a large sample of 26,359 individuals who left the French educational system in 1992 and were interviewed five years later, in 1997. In the original sample, education levels range from the lowest to the highest one, respectively referred to as “Level VI” and “Level I” in the French nomenclature. This database has the main advantage to contain information on both educational and labor market histories (over the first five years following the exit from the educational system). Furthermore, the survey provides a set of individual covariates which are used as controls in our estimation procedure such as gender, place of birth, nationality, parents’ profession, and residence when leaving the educational system. Most of the individual covariates observed in the “Génération 92” survey are also provided by the “Génération 98” survey, which consists of a sample of 22,021 individuals who left the French educational system six years later, in 1998, and were interviewed in 2003.<sup>19</sup> In this paper, we exploit the pooled dataset which contains information on a total of 48,380 individuals entering the labor market either in 1992 or in 1998.

Our subsample of interest is constituted of respondents to these surveys and who have at least passed the national high school final examination. It is then restricted to 27,389 individuals. Furthermore, within this selected sample, we restrict our analysis to the individuals having attended university, except medicine faculties and IUT (“*Institut Universitaire de Technologie*”, which are two-year vocational colleges). This sample selection was made in order to keep an homogeneous set of post-secondary tracks, both in terms of selection and possible length of studies. Missing covariates values finally leaves us with a sample of 7,346 individuals.<sup>20</sup>

Post-secondary studies are aggregated into three broad fields: “Sciences”, “Humanities and Social Sciences” (including art studies) and “Law, Economics and Management”. We then consider five different educational levels (i.e. degrees) that may be reached within each major. They are respectively denoted by “dropout” (less than two years of college), “two years of college”, “BA degree” (“Licence” in French), “MA degree” (“Maîtrise”) and “Graduate” (more than four years after High School). Tables 1 and 2 below provide basic descriptive statistics for the selected subsample. Table 7 (reported in Appendix A) provides a descriptive outlook for the determinants of post-secondary schooling choices in France.

We first focus on the choice of the major. Table 7 shows that this choice is related with gender, the age in 6<sup>th</sup> grade,<sup>21</sup> and parents’ profession.

Noteworthy, male students are more likely to attend majors in Sciences (39.40% among male vs. 16.42% among females) while female students are more likely to attend majors in Humanities and Social Sciences (29.32% among males vs. 48.93% among females). The student’s age in 6<sup>th</sup> grade and the chosen field are highly correlated: individuals who were above the “normal” age in 6<sup>th</sup> grade are less likely to attend a major in Science, while they are more likely to attend a major in Law, Economics and Management.

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<sup>19</sup>Although a longer observation window is available for each *Génération* dataset, the average log-earnings are computed using only the observations from 1992 to 1995 for *Génération 1992* (resp. 1998 to 2001 for *Génération 1998*). In particular, restricting to a 4-years window allow us to limit the number of individuals that have to be dropped because of missing earnings values, in addition to the fact that it allows us to work with two periods of virtually opposed economic conditions and helps identifying the earnings elasticities of major choices.

<sup>20</sup>In order to prevent our estimates to be driven by outliers, we also drop individuals with average log-earnings below the 2.5 percentile (respectively above the 97.5 percentile) of the log-earnings distribution.

<sup>21</sup>This variable can be seen as a proxy for the individual schooling ability.

Parental characteristics also seem to play an important role on the choice of the major. The higher the parents' social category, the higher the probability to study sciences. For instance, individuals whose father is a blue-collar worker are more likely to attend a major in Humanities and Social Sciences, and less likely to attend a major in Sciences.<sup>22</sup> Table 7 also shows a strong correlation between the chosen field and the length of studies. Only one quarter of graduates complete their degree in Humanities and Social Sciences. Unlike graduates, half of dropouts during the first two years of college studied Humanities.

Finally, the higher the educational level, the larger the mean of log-earnings (see Table 3 reported below): graduates earn 1.7 times more than dropouts. There are significant differences in average earnings associated with the different majors: sciences ranks first, followed by law, economics and management, and finally humanities and social sciences. The discrepancy between majors is greater in 1998 than in 1992. Sciences and law, economics and management benefited from the macroeconomic expansion that occurred in the late 90's.

Table 1: Descriptive statistics: majors and levels of post-secondary education

	Number	Percent
<i>Major</i>		
Sciences	2,106	28.67
Humanities and Social Sciences	2,761	37.59
Law, Economics and Management	2,479	33.75
<i>Post-secondary education level</i>		
Dropout	1,762	23.99
Two years of college	732	9.97
Licence (BA degree)	1,400	19.06
Maîtrise (MA degree)	1,486	20.23
Post Maîtrise (Graduates)	1,966	26.76

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

<sup>22</sup>Mother's profession is associated with the field of study in a similar way.



Table 2: Descriptive statistics: covariates

	Number	Percent
<i>Year of entry into the labor market</i>		
1992	3,436	46.77
1998	3,910	53.23
<i>Gender</i>		
Male	3,197	43.52
Female	4,149	56.48
<i>Born abroad</i>		
No	7,164	97.52
Yes	182	2.48
<i>Age in 6<sup>th</sup> grade</i>		
≤ 10	858	11.68
11	6,109	83.16
≥ 12	379	5.16
<i>Secondary schooling track</i>		
Humanities	1,712	23.31
Economics and Social Sciences	1,733	23.59
Sciences	2,523	34.35
Vocational or Technological	1,378	18.76
<i>Father's profession (at the survey date)</i>		
Farmer or tradesman	1131	15.40
Executive	2213	30.13
Intermediate occupation	898	12.22
White-Collar	1468	19.98
Blue-collar	1237	16.84
Out-of-the labor force	399	5.43
<i>Mother's profession (at the survey date)</i>		
Farmer or tradesman	527	7.17
Executive	1226	16.69
Intermediate occupation	508	6.92
White-Collar	3269	44.50
Blue-collar	508	6.92
Out-of-the labor force	1308	17.81

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

Table 3: Average monthly earnings (1992 French Francs) according to the length and the field of studies

Field	Length	Average earnings
Pooled surveys		
	Dropout	4,920
	Two years of college	5,983
	Licence (BA degree)	6,181
	Maitrise (MA degree)	6,739
	Post Maitrise (Graduates)	8,414
Sciences		
Humanities and Social Sciences		
Law, Economics and Management		
Survey <i>Génération</i> 1992		
	Dropout	4,205
	Two years of college	6,057
	Licence (BA degree)	6,082
	Maitrise (MA degree)	6,556
	Post Maitrise (Graduates)	7,621
Sciences		
Humanities and Social Sciences		
Law, Economics and Management		
Survey <i>Génération</i> 1998		
	Dropout	5,219
	Two years of college	5,938
	Licence (BA degree)	6,292
	Maitrise (MA degree)	6,942
	Post Maitrise (Graduates)	9,450
Sciences		
Humanities and Social Sciences		
Law, Economics and Management		

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

## 5 Identification strategy

For identifiability reasons, we impose usual restrictions on the type-specific heterogeneity terms of equations 1 and 2. Namely, in the multinomial probit model corresponding to the choice equation, we set  $\alpha_{(1,1)}^r = 0, \forall r \in \{1, \dots, R\}$ , and, in the ordered probit model corresponding to

the second equation,  $\alpha_2^1 = 0$ .

In order to identify our model, and in particular the effect of expected earnings on the probability to choose a major, without relying on distributional assumptions, we exploit variations in the relative earnings returns induced by the business cycle. In other terms, we take into account the fact that these relative returns depend on the year of entry into the labor market.<sup>23</sup> Descriptive statistics reported in Table 3 show that the relative returns to the majors changed significantly between 1992 and 1998: these years correspond respectively to a recession and to an expansion in the French business cycle.<sup>24</sup> Namely, after controlling for the change in the distribution of educational levels between 1992 and 1998 as well as for inflation, we find a relative increase of 13.5% (respectively, 10.4%) in the average earnings associated with majors in sciences (respectively, in law, economics and management) between the two periods, while the average earnings associated with majors in humanities and social sciences decreased by 4.2% over the same period.<sup>25</sup> Besides, it seems reasonable to assume that the date of entry into the labor market has no direct influence on the choice of the major, in other words that, other observable things being equal, preferences for the majors were stable during this period.<sup>26</sup> In order to identify the elasticity of the choice of the major with respect to expected earnings, we exploit the fact that the returns to the different majors are unequally affected by the business cycle.<sup>27</sup> Hence, we introduce into the earnings equation interaction terms between the chosen major and an entry year dummy. This dummy variable is equal to zero if the individual enters the labor market in 1992, and to unity otherwise (namely, if she enters the labor market six years later in 1998). Its interaction with the chosen major is assumed to affect only the earnings and not the two other outcomes. This exclusion restriction (over)identifies the parameter  $\alpha$  associated with the expected returns in the choice equation without imposing a distributional assumption on the error terms. Besides, the covariates indicating the father's and mother's professions (respectively in 1992 and 1998), the age of the student in 6<sup>th</sup> grade, and the high-school major are included in the list of regressors affecting the choice of the major and the determination of the length of studies, but they are excluded from the earnings equation. Similarly to Arcidiacono (2005, section 4), these exclusion restrictions, in addition to the assumed functional forms, allow to identify the unobserved heterogeneity types. These covariates may be correlated with the individual's preferences and

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<sup>23</sup>Berger (1988) also relies on exogenous variations in the wage returns to each major according to the date of entry into the labor market in order to identify the effect of expected earnings on college major choice. Unlike ours, his framework does not take into account the determination of the length of studies. Besides, his results rely on the *Independence from Irrelevant Alternative* assumption for the choice of the major which is unlikely to hold in such a context.

<sup>24</sup>See Figure 1 in Appendix A.

<sup>25</sup>These relative variations between 1992 and 1998 are obtained by computing for each major the average of mean monthly earnings conditional on each educational level, weighted by the frequency of each level.

<sup>26</sup>In particular, we should remark that no reform concerning post-secondary education was implemented in France between 1992 and 1998. The progressive application of the Bologna process to the French post-secondary educational system began in 1999. Thus it should not affect the choice decisions of the individuals in our sample who had already entered the labor market at that time.

<sup>27</sup>On a related ground, in a recent paper examining the career effects of graduating in a recession, Oreopoulos et al. (2008) show that Canadian college graduates are unequally affected by the recession according to their major of study.

ability, represented respectively by  $\alpha_{(1,j)}^r$  and  $\alpha_2^r$ . Finally, considering that overcrowding may affect educational attainment, we assume that the proportion of college students who attend the same major in the same university than the individual may influence the length of her studies.

## 6 Results

Tables 12 and 13 (see Appendix B) report the parameter estimates of the equations generating the major choice.

Students whose mother is a white-collar choose less frequently majors in Humanities and Social Sciences, compared to Sciences, than students whose mother is an executive. Noteworthy, students whose mother is a farmer, a tradeswoman or a white-collar worker, or whose occupies an intermediate profession, also choose less frequently majors in Law, Economics and Management compared to Sciences. In all other cases, parental, and in particular father's profession has generally no effect on the major choice.

The nationality of the student's parents has a significant and quantitatively large impact on the choice of a major in Law, Economics and Management as well as in Humanities and Social Sciences, compared to Sciences. Besides, students born abroad are significantly less likely to study law, economics or management. Noteworthy, female students are very significantly less likely to study sciences. As expected, students who obtained a *Baccalauréat* in sciences are significantly more likely to choose a post-secondary major in sciences. Students who were older than expected (i.e. 12 years old or above) at the entry into junior high school (sixth grade) choose less frequently a major in sciences. Finally, the expected returns in a given post-secondary major has a statistically significant but rather small effect on the choice of the major (see the value for the estimate of the parameter  $\alpha$  in Table 12).

Most covariates have a significant impact on the length of post-secondary studies (see Table 14). For instance, students whose parents are white-collar or blue-collar workers leave the post-secondary educational system at a lower level. Students whose both parents are French reach generally a higher level of post-secondary education. Students who were younger than expected (i.e. 10 years old or below) at the entry into junior high-school reach a higher level of education. Those who obtained their *Baccalauréat* in sciences are also more likely to reach a higher level of post-secondary education. When the proportion of college students who attend the same major in the same university increases, which implies that the proportion of students preparing a BA or MA degree is lower in this major and in this university, the individual probability of reaching a high level of education (B.A. and above) in this major is lower, other things being equal. This may result from the selection imposed by the university after the end of college (i.e. at the entry in the third year of post-secondary schooling in the major), or from peers effects; this second interpretation is the one set forth by Arcidiacono (2004, 2005). Finally, women are less likely to pursue long studies. This is a common result in France: nowadays, on average, French women are more educated than men, but graduated men are more numerous than women.

Table 15 gives the parameter estimates of the (log-)earnings equation. On average, earnings are lower for females and they are higher in the region Ile-de-France (including Paris). Mean (log-)earnings increase with the length of studies in post-secondary education. However, this in-

crease is lower above the BA degree in humanities and social sciences. Noteworthy, the marginal returns to each additional year of post secondary education are also lower, up to graduate level, for the individuals entering the labor market in 1998 than for those leaving university six years before. Besides, consistently with the fact that the individuals entering the French labor force in 1998 benefit from positive economic conditions (as compared to those entering the labor market in 1992), mean (log-)earnings are substantially higher for those leaving university in 1998. Finally, while controlling for selection on observables and unobservables renders statistically insignificant the returns to the majors for the individuals leaving university in 1992, those entering the labor market in 1998 after graduating in humanities and social sciences experience negative relative returns.

Tables 16 and 17 report the parameter estimates of the distribution of unobserved individual heterogeneity terms. The first group of individuals represents 38 percent of the population of students. Individuals in this group are characterized by the lowest unobserved type-specific preference for studying sciences as well as the highest highest type-specific earnings intercept  $\alpha_3$ . The second group represents approximately 34 percent of the population of students. Individuals in this group are characterized by the lowest type-specific preference  $\alpha_{(1,3)}$  for studies in law, economics and management. They also have the lowest type-specific propensity (or ability)  $\alpha_2$  to undertake long post-secondary studies. Finally, the third group represents about 28 percent of the population; it is both characterized by the lowest type-specific earnings intercept term  $\alpha_3$  and the highest propensity to pursue long post-secondary studies. Table 18 reports the estimated proportions of students in each major, at each level of post-secondary education, according to each type, while Table 19 reports the estimated means and standard errors of log-earning distributions by type. These tables are obtained by attributing to each observed individual the type that maximizes her posterior type probability.

The model fit is quite good. Table 4 shows that the model slightly overestimates (resp. underestimates) the proportion of students in humanities and social sciences (resp. in law, economics and management).

To get a more precise view of the effect of expected earnings on the choice of the post-secondary major, we run simulation exercises that consider a 10% increase or decrease in the expected earnings associated with a given major (see Tables 4 to 6 below).<sup>28</sup>

In general, the impacts are quantitatively small even though they are statistically significant. The lowest impacts concern the majors in sciences. A 10% increase in the expected earnings associated with majors in sciences leads to an increase of 0.25 percentage points in the proportion of students in this major. This increase is mainly compensated by a decrease of 0.19 percentage points in the proportion of students in humanities and social sciences (see Table 4). A 10% decrease in the expected earnings associated with majors in sciences results in almost symmetric variations in allocations across majors.

Impacts resulting from a 10% increase or decrease in the expected earnings associated with majors in humanities and social sciences are substantially higher although still quantitatively small (see Table 5). For instance, a 10% increase in the expected earnings associated with a post-

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<sup>28</sup>Simulating both types of variation enables us to see whether the impacts on allocations across majors are symmetric or not.

secondary in these majors results in an increase of about 0.53 percentage points in the proportion of students in these majors, this increase being mainly compensated by a decrease of about 0.34 percentage points in the proportion of students in law, economics and management and to a lesser extent by a 0.19 points decrease in the proportion of students in sciences. Once again, a 10% decrease in expected earnings has almost symmetric impacts on allocations.

Finally, a 10% increase in the expected earnings associated with a post-secondary education in law, economics and management majors result in an increase of 0.4 percentage points in the proportion of students in these majors, this increase being mainly compensated by a decrease of 0.34 percentage points in the proportion of students in humanities and social sciences (see Table 6). The effects are still symmetric for a 10% decrease in the expected earnings associated with this major.<sup>29</sup>

The preceding simulation exercises allow us to compute the sample earnings elasticities of major choice, which present the advantage of being easily interpreted. Namely, simulating a 10% increase in the expected earnings for each major yields low elasticities of respectively 0.09 for sciences, 0.14 for humanities and social sciences, and finally 0.12 for law, economics and management.

The results discussed above were obtained relying on the econometric framework detailed in Section 3, which in particular does not account for log-earnings heteroskedasticity. In order to address the fact that major choices may also be driven by major and level-specific earnings dispersions, we also run additional estimations relying on an extension of our model accounting for heteroskedasticity and risk aversion. Namely, we impose an exponential parametric form of heteroskedasticity, allowing the variance of log-earnings to depend both on the major and on the level of education. Besides, we assume that individuals value the major and the level-specific earnings through a CRRA von Neumann-Morgenstern utility function, with a risk aversion parameter taken equal to  $\rho = 1.1$ . This means that the mathematical expectations appearing in the expression of the terms  $v_{1j}^r$  for  $j = 1, \dots, M$  (see equation 1), become:

$$\frac{1}{1 - \rho} e^{(1-\rho)\mu_{j,k}^r + \frac{(1-\rho)^2 \sigma_{j,k}^2}{2}}$$

where  $\mu_{j,k}^r$  and  $\sigma_{j,k}^2$  denote the mean and the variance of log-earnings, respectively. This alternative specification yield fairly similar earnings elasticities of major choice (see Appendix C). The effects of expected earnings on major choice are still significant and quantitatively small, with point estimates of the same magnitude.

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<sup>29</sup>Given that the model we estimate *a priori* yields non linear effects of expected earnings on the probability to choose each major, we also simulated 20% increases in the expected earnings associated with each field of study. The resulting effects are about twice (namely 1.9) larger. We therefore provide the earnings elasticities of major choice relying only on the first set of simulations.

Table 4: Simulation of a 10% variation in expected earnings associated with majors in sciences (percentages)

	Observed proportions	Predicted proportions	$\hat{\Delta}_p$	$\hat{\sigma}_{\hat{\Delta}_p}$ Standard error
<i>10% increase</i>				
Sciences	28.67	27.97	0.251	0.019
Humanities and Social Sciences	37.59	41.17	-0.189	0.013
Law, Economics and Management	33.75	30.86	-0.062	0.009
<i>10% decrease</i>				
Sciences	28.67	27.97	-0.276	0.021
Humanities and Social Sciences	37.59	41.17	0.209	0.014
Law, Economics and Management	33.75	30.86	0.068	0.009

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

Remark:  $\hat{\Delta}_p$  denotes the variation in the predicted probability due to a 10% variation in the expected earnings.

Table 5: Simulation of a 10% variation in expected earnings associated with majors in humanities or social sciences (percentages)

	Observed proportions	Predicted proportions	$\hat{\Delta}_p$	$\hat{\sigma}_{\hat{\Delta}_p}$ Standard error
<i>10% increase</i>				
Sciences	28.67	27.97	-0.189	0.013
Humanities and Social Sciences	37.59	41.17	0.526	0.048
Law, Economics and Management	33.75	30.86	-0.336	0.038
<i>10% decrease</i>				
Sciences	28.67	27.97	0.209	0.014
Humanities and Social Sciences	37.59	41.17	-0.580	0.053
Law, Economics and Management	33.75	30.86	0.371	0.042

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille).

Remark:  $\hat{\Delta}_p$  denotes the variation in the predicted probability due to a 10% variation in the expected earnings.

Table 6: Simulation of a 10% variation in expected earnings associated with majors in law, economics or management (percentages)

	Observed proportions	Predicted proportions	$\hat{\Delta}_p$	$\hat{\sigma}_{\hat{\Delta}_p}$ Standard error
<i>10% increase</i>				
Sciences	28.67	27.97	-0.062	0.009
Humanities and Social Sciences	37.59	41.17	-0.337	0.038
Law, Economics and Management	33.75	30.86	0.399	0.042
<i>10% decrease</i>				
Sciences	28.67	27.97	0.068	0.009
Humanities and Social Sciences	37.59	41.17	0.371	0.042
Law, Economics and Management	33.75	30.86	-0.439	0.046

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille).

Remark:  $\hat{\Delta}_p$  denotes the variation in the predicted probability due to a 10% variation in the expected earnings.

## 7 Conclusion

Our results suggest a low elasticity of post-secondary major choices with respect to expected earnings. In general, the impact of expected earnings on this choice is quantitatively small even though it is statistically significant. The lowest impact concerns the majors in sciences. Impact of the expected earnings associated with majors in humanities and social sciences is substantially higher although still quantitatively small. Increases and decreases in the expected earnings result in almost symmetric variations in allocations across majors. Taking into account risk aversion yields fairly similar earnings elasticities of the major choice with respect to expected earnings.

Thus it appears that the choice of a major of study which is made when entering university is mainly driven by the *consumption value* of schooling which is related both to schooling preferences and abilities, rather than by its *investment value*. Our paper provides strong evidence, in line with the results obtained by Carneiro, Hansen and Heckman (2003), that, at least for the French university context, nonpecuniary factors are a key determinant of schooling choices.

From a policy point of view, this paper suggests that the solution to the shortage for some skills, mainly scientific in the European context, does not lie principally in financial incentives. Providing incentives, as often advocated, to implement gain and profit-sharing schemes appears to be unlikely to overcome skill shortages. The solution probably lies upstream, within formation of preferences and abilities at school.



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## A Other descriptive statistics

Figure 1: Real growth rate of the French GDP, 1990-2002



Table 7: Distribution of various subgroups across majors (in percent)

	Sciences	Humanities and Social Sciences	Law, Economics and Management
<i>Gender</i>			
Male	39.40	29.32	31.27
Female	16.42	48.93	34.66
<i>Born abroad</i>			
No	25.93	40.84	33.23
Yes	26.67	38.89	34.44
<i>Age in 6<sup>th</sup> grade</i>			
≤ 10	29.60	38.81	31.59
11	26.23	41.22	32.55
≥ 12	16.73	38.29	44.98
<i>Father's profession</i>			
Farmer	33.76	36.31	29.94
Tradesman	27.35	38.29	34.35
Executive	29.66	38.94	31.40
Intermediate occupations	27.13	40.23	32.64
White-collar	24.84	40.82	34.34
Blue-collar	20.62	44.96	34.42
<i>Mother's profession</i>			
Farmer	34.52	39.29	26.19
Tradesman	28.09	37.64	34.27
Executive	28.86	40.24	30.89
Intermediate occupations	25.32	43.35	31.33
White-collar	25.05	42.15	32.80
Blue-collar	22.39	41.42	36.19
Out-of-the labor force	25.43	36.75	37.82
<i>Post-secondary educational level</i>			
Dropout	23.33	40.61	28.98
Two years of college	10.80	12.16	10.85
Licence (BA degree)	11.07	22.45	13.28
Maîtrise (MA degree)	16.19	12.39	25.05
Post Maîtrise (Graduates)	38.61	12.39	21.84
<i>Secondary schooling track</i>			
Humanities	1.78	77.59	20.63
Economics and social sciences	3.74	40.71	55.56
Sciences	62.68	16.26	21.06
Vocational or technological	18.02	40.15	41.83

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

Remarks: Lines sum up to 100%, except for educational levels, for which columns sum up to 100%.

Table 8: Proportions of students who move to another major after one year of college (in percent)

Major (first year of college)	LEM	HSS	S
<i>Major (second year of college)</i>			
LEM	94.95	1.45	0.69
HSS	4.89	97.78	3.70
S	0.16	0.77	95.60

*Source:* Panel 1989 (DEPP, French Ministry of Education)

*Remarks:* Lines sum up to 100%.

*Abbreviations:* HSS for Humanities and Social Sciences, LEM for Law, Economics and Management, S for Sciences.

Table 9: Expected and effective levels of studies (in percent)

Effective level of studies	Less than college	College	BA	MA or more
<i>Aspiration (in first year of college)</i>				
Less than college	33.71	12.36	28.09	25.84
College	45	20.50	17	17.50
BA	32.49	16.40	24.61	26.50
MA or more	23.06	13.97	25.40	37.57

*Source:* Panel 1989 (DEPP, French Ministry of Education)

*Remarks:* Lines sum up to 100%.

Table 10: Distribution of majors and education levels in the 1992 subsample

	Number	Percent
<i>University fields</i>		
Sciences	1,094	31.84
Humanities and Social Sciences	1,174	34.17
Law, Economics and Management	1,168	33.99
<i>Post-secondary education level</i>		
Dropout	518	15.08
Two years of college	281	8.18
Licence (BA degree)	742	21.59
Maîtrise (MA degree)	781	22.73
Post Maîtrise (Graduates)	1,114	32.42
Total	3,436	100

Source: Survey *Génération* 1992 (CEREQ, Marseille)

Table 11: Distribution of majors and education levels in the 1998 subsample

	Number	Percent
<i>University fields</i>		
Sciences	1,012	25.88
Humanities and Social Sciences	1,587	40.59
Law, Economics and Management	1,311	33.53
<i>Post-secondary education level</i>		
Dropout	1,244	31.82
Two years of college	451	11.53
Licence (BA degree)	658	16.83
Maîtrise (MA degree)	705	18.03
Post Maîtrise (Graduates)	852	21.79
Total	3,910	100

Source: Survey *Génération* 1998 (CEREQ, Marseille)

## B Parameter estimates

Table 12: Choice of the major (beginning)

Covariates	Estimate	Standard Error
Expected earnings ( $\alpha$ )	0.019	0.001
<b>Sciences</b>	<i>Ref</i>	<i>Ref</i>
<b>Humanities and Social Sciences</b>		
<i>Father's profession</i>		
Executive	<i>Ref</i>	<i>Ref</i>
Farmer or tradesman	-0.103	0.095
Intermediate occupation	-0.083	0.090
White-collar	-0.053	0.068
Blue-collar	0.073	0.089
Unknown	0.438	0.129
<i>Mother's profession</i>		
Executive	<i>Ref</i>	<i>Ref</i>
Farmer or tradesman	-0.210	0.109
Intermediate occupation	-0.139	0.101
White-collar	-0.134	0.057
Blue-collar	-0.175	0.107
Unknown	-0.237	0.082
Born abroad	-0.190	0.123
Woman	0.920	0.051
Both parents are French	-0.303	0.062
<i>Age in 6<sup>th</sup> grade</i>		
$\leq 10$	-0.021	0.072
11	<i>Ref</i>	<i>Ref</i>
$\geq 12$	0.391	0.102
<i>Secondary schooling track</i>		
Sciences	<i>Ref</i>	<i>Ref</i>
Humanities	2.200	0.075
Economics and social sciences	2.287	0.082
Vocational or technological	1.164	0.064

Source: Surveys *Généralions* 1992 and 1998 (CEREQ, Marseille)



Table 13: Choice of the major (end)

Covariates	Estimate	Standard Error
<b>Law, Economics and Management</b>		
<i>Father's profession</i>		
Executive	<i>Ref</i>	<i>Ref</i>
Farmer or tradesman	-0.030	0.111
Intermediate occupation	-0.094	0.110
White-collar	-0.026	0.097
Blue-collar	0.004	0.117
Unknown	0.477	0.145
<i>Mother's profession</i>		
Executive	<i>Ref</i>	<i>Ref</i>
Farmer or tradesman	-0.335	0.143
Intermediate occupation	-0.261	0.135
White-collar	-0.179	0.073
Blue-collar	-0.046	0.162
Unknown	-0.165	0.088
Born abroad	-0.335	0.180
Woman	0.900	0.072
Both parents are French	-0.343	0.084
<i>Age in 6<sup>th</sup> grade</i>		
≤ 10	-0.031	0.092
11	<i>Ref</i>	<i>Ref</i>
≥ 12 years	0.528	0.150
<i>Secondary schooling track</i>		
Sciences	<i>Ref</i>	<i>Ref</i>
Humanities	1.888	0.117
Economics and social sciences	3.065	0.150
Vocational or technological	1.587	0.105

Source: Surveys *Généralisations* 1992 and 1998 (CEREQ, Marseille)

Table 14: Equation for the length of studies

Covariates	Estimate	Standard Error
<i>Father's profession</i>		
Farmer or tradesman	-0.232	0.043
Executive	<i>Ref</i>	<i>Ref</i>
Technician	-0.214	0.046
White-collar	-0.424	0.040
Blue-collar	-0.391	0.042
Unknown	-0.238	0.060
<i>Mother's profession</i>		
Farmer or tradesman	0.010	0.053
Executive	<i>Ref</i>	<i>Ref</i>
Technician	-0.143	0.064
White-collar	-0.118	0.038
Blue-collar	-0.236	0.049
Unknown	0.070	0.046
Born abroad	0.319	0.079
Woman	-0.063	0.031
Both parents are French	0.165	0.044
<i>Age in 6<sup>th</sup> grade</i>		
≤ 10	0.192	0.047
11	<i>Ref</i>	<i>Ref</i>
≥ 12	-0.313	0.084
<i>Secondary schooling track</i>		
Sciences	<i>Ref</i>	<i>Ref</i>
Humanities	-0.484	0.036
Economics and social sciences	-0.267	0.031
Vocational or technological	-1.051	0.045
Proportion of students in the same college	-1.306	0.063
Leaving post-secondary education in 1998	-0.446	0.035

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

Table 15: Earnings equation

Covariates	Estimate	St. Error
Both parents are French	0.004	0.016
Region Ile de France (Paris)	0.118	0.015
Female	-0.074	0.020
Born abroad	0.009	0.039
Leaving post-secondary education in 1998	0.366	0.030
<i>Field of studies</i>		
Sciences	<i>Ref</i>	<i>Ref</i>
Humanities and social sciences	0.056	0.039
Law, economics and management	-0.047	0.040
<i>Level of studies</i>		
Dropout	<i>Ref</i>	<i>Ref</i>
Two years of college	0.397	0.050
Licence (BA degree)	0.496	0.037
Maitrise (MA degree)	0.534	0.046
Post Maitrise (Graduates)	0.760	0.039
<b>Interactions between the major and the educational level</b>		
<i>Humanities and social sciences</i>		
Dropout	<i>Ref</i>	<i>Ref</i>
Two years of college	-0.087	0.053
Licence (BA degree)	-0.155	0.043
Maitrise (MA degree)	-0.208	0.040
Post Maitrise (Graduates)	-0.194	0.048
<i>Law, economics and management</i>		
Dropout	<i>Ref</i>	<i>Ref</i>
Two years of college	0.044	0.049
Licence (BA degree)	-0.003	0.047
Maitrise (MA degree)	-0.008	0.041
Post Maitrise (Graduates)	-0.076	0.053
<b>Interactions between the gender (female) and the educational level</b>		
Dropout	<i>Ref</i>	<i>Ref</i>
Two years of college	0.058	0.037
Licence (BA degree)	0.090	0.036
Maitrise (MA degree)	0.136	0.037
Post Maitrise (Graduates)	0.018	0.036
<b>Interactions between a dummy for year 1998 and the educational level</b>		
Dropout	<i>Ref</i>	<i>Ref</i>
Two years of college	-0.267	0.042
Licence (BA degree)	-0.259	0.031
Maitrise (MA degree)	-0.231	0.034
Post Maitrise (Graduates)	-0.054	0.051
<b>Interactions between a dummy for year 1998 and the major</b>		
Sciences	<i>Ref</i>	<i>Ref</i>
Humanities and social sciences	-0.121	0.031
Law, economics and management	0.016	0.035

Table 16: Other parameters

Covariance matrix of residuals (standard errors in parentheses)

$$\begin{pmatrix} 1 & 0 & 0 & 0 \\ 0 & 1 & 1.053 & 0 \\ (-) & (-) & (0.129) & (-) \\ 0 & 1.053 & 2.379 & 0 \\ (-) & (0.129) & (0.318) & (-) \\ 0 & 0 & 0 & 0.516 \\ (-) & (-) & (-) & (0.005) \end{pmatrix}$$

	Estimate	St. Error
<i>Thresholds</i>		
$s_2$	-2.556	0.067
$s_3$	-2.154	0.070
$s_4$	-1.472	0.067
$s_5$	-0.710	0.069
<i>Type probabilities</i>		
Type 1	0.380	0.004
Type 2	0.337	0.004
Type 3	0.283	0.004

Source: Surveys *Générations* 1992 and 1998 (CEREQ, Marseille)

Table 17: Type-specific heterogeneity parameters

	Estimate	St. Error
<i>Type 1</i>		
$\alpha_{(1.1)}$	0.000	-
$\alpha_{(1.2)}$	1.244	0.091
$\alpha_{(1.3)}$	1.037	0.093
$\alpha_2$	0.000	-
$\alpha_3$	8.192	0.038
<i>Type 2</i>		
$\alpha_{(1.1)}$	0.000	-
$\alpha_{(1.2)}$	-1.312	0.091
$\alpha_{(1.3)}$	-2.828	0.141
$\alpha_2$	-0.363	0.043
$\alpha_3$	8.111	0.032
<i>Type 3</i>		
$\alpha_{(1.1)}$	0.000	-
$\alpha_{(1.2)}$	-1.363	0.082
$\alpha_{(1.3)}$	-1.571	0.119
$\alpha_2$	0.502	0.051
$\alpha_3$	8.089	0.036

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

Table 18: Estimated proportions of students in each major, at each level of post-secondary education, by type

Major	Type 1	Type 2	Type 3
Sciences	0.00	44.66	50.34
Humanities and Social Sciences	41.02	55.34	17.49
Law, Business and Management	58.98	0.00	32.16
Length	Type 1	Type 2	Type 3
Dropout	26.40	47.55	0.00
Two years of college	12.43	16.73	0.86
Licence (BA degree)	26.81	24.42	4.58
Maitrise (MA degree)	19.77	10.53	29.43
Post Maitrise (Graduates)	14.58	0.77	65.14

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

Table 19: Estimated means and standard errors of log-earnings distributions, by type

	Mean	St.Error
<i>Whole sample</i>	8.65	0.57
<i>Type 1</i>	8.62	0.32
<i>Type 2</i>	8.48	0.31
<i>Type 3</i>	8.84	0.29

*Source:* Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille)

## C Simulation exercises with risk aversion and log-earnings heteroskedasticity

Table 20: Simulation of a 10% variation in expected earnings associated with majors in sciences (percentages)

	Observed proportions	Predicted proportions	$\hat{\Delta}_p$	$\hat{\sigma}_{\hat{\Delta}_p}$ Standard error
<i>10% increase</i>				
Sciences	28.67	26.21	0.214	0.004
Humanities and Social Sciences	37.59	40.18	-0.070	0.003
Law, Economics and Management	33.75	33.61	-0.144	0.005
<i>10% decrease</i>				
Sciences	28.67	26.21	-0.234	0.004
Humanities and Social Sciences	37.59	40.18	0.077	0.003
Law, Economics and Management	33.75	33.61	0.157	0.006

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille).

Remark:  $\hat{\Delta}_p$  denotes the variation in the predicted probability due to a 10% variation in the expected earnings.

Table 21: Simulation of a 10% variation in expected earnings associated with majors in humanities and social sciences

	Observed proportions	Predicted proportions	$\hat{\Delta}_p$	$\hat{\sigma}_{\hat{\Delta}_p}$ Standard error
<i>10% increase</i>				
Sciences	28.67	26.21	-0.066	0.003
Humanities and Social Sciences	37.59	40.18	0.311	0.015
Law, Economics and Management	33.75	33.61	-0.245	0.017
<i>10% decrease</i>				
Sciences	28.67	26.21	0.073	0.003
Humanities and Social Sciences	37.59	40.18	-0.347	0.017
Law, Economics and Management	33.75	33.61	0.274	0.019

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille).

Remark:  $\hat{\Delta}_p$  denotes the variation in the predicted probability due to a 10% variation in the expected earnings.

Table 22: Simulation of a 10% variation in expected earnings associated with majors in law, economics and management (percentages)

	Observed proportions	Predicted proportions	$\hat{\Delta}_p$	$\hat{\sigma}_{\hat{\Delta}_p}$ Standard error
<i>10% increase</i>				
Sciences	28.67	26.21	-0.146	0.005
Humanities and Social Sciences	37.59	40.18	-0.242	0.017
Law, Economics and Management	33.75	33.61	0.388	0.021
<i>10% decrease</i>				
Sciences	28.67	26.21	0.163	0.006
Humanities and Social Sciences	37.59	40.18	0.269	0.018
Law, Economics and Management	33.75	33.61	-0.432	0.023

Source: Surveys *Génération*s 1992 and 1998 (CEREQ, Marseille).

Remark:  $\hat{\Delta}_p$  denotes the variation in the predicted probability due to a 10% variation in the expected earnings.