Misallocation of Human Capital and the Wealth of Nations

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ABSTRACT

In this paper we assess the role of human capital misallocation in explaining cross-country income differences. To do so we build a model of human capital accumulation by heterogeneous families that differ along two dimensions: learning ability of the children and income of the parents. Misallocation arises whenever two children with identical learning ability have different levels of inputs put towards acquiring human capital. To discipline the quantitative importance of human capital misallocation, we draw on rich household-level data for a large set of countries around the world. These data allow us to measure, among other statistics, school attendance rates of children by parental income level, by country. Preliminary results suggest that misallocation of human capital leads to substantially lower average income.

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