# Introduction to Yu and Ming (2016)

## 張珮 2016.12.03 經濟史專題討論

1. What are the questions of the paper?

How economic development affects intergenerational earnings (between fathers' and sons' earnings) elasticities? Need to use the best samples to provide more reliable estimates of intergenerational earnings elasticity in Taiwan then find the results of estimating intergenerational earnings elasticities. Where the datasets and what are the regressions that they can use to estimate the effect on intergenerational earnings elasticities. Which is the standard methodology when fathers' and sons' earnings are not available in one dataset?

2. What are the authors' answers?

The high estimated mobility is a result of estimation bias, and that true intergenerational earnings mobility in the Asian Tigers is much lower than the previous literature suggests. Surprisingly, their results show that the intergenerational earnings mobility in Taiwan has remained stable, despite dramatic economic and social changes during this period.
One possible explanation is that the main channel for intergenerational income transmission is the intergenerational transmission of abilities, which is likely to be relatively stable.
The majority of intergenerational earnings elasticity in Taiwan can be attributed to the effect of human capital transmission rather than the effect of parental financial resources.

Second, this paper focuses on intergenerational earnings elasticity that is measured at the mean. The results show, although the intergenerational elasticity at the mean may be stable over time, it could have changed at the tails of income distribution.

3. How did the authors get there?

They estimate intergenerational earnings elasticity in Taiwan in 1990–1994 and 2005–2010. We use representative samples and correct problems common in the literature on Asian countries such as life-cycle bias and prediction bias. And their secondary samples for potential fathers are carefully chosen so that they are indeed representative of real fathers. Indeed, we apply the decomposition method from Lefgren, Lindquist, and Sims (2012) to the 2005–2010 data and find that the majority of intergenerational earnings elasticity in Taiwan.

4. Why should we care about them?

In the different time, different environment, different generation, there is the different effect of the earning and we have some question that what is the effect on the earning. May be the economic development is the important sector that effect it but the problems is we did not know and we have to find what is the effects between the economics and the intergeneration earning. So this is the reason that why we should care about them and why we should estimate intergenerational earnings elasticities between fathers and sons.

Model Specification

1. $y_i^s = \beta y_i^f + e_i$

$y_i^s$, $y_i^f$ are the permanent earnings of sons and their fathers in logarithm, and $e_i$ is error term that is orthogonal to the permanent earnings of their fathers. $\beta$ is the linear projection of the permanent earnings of the fathers in logarithm on the permanent earnings of the sons in logarithm.

2. $y_i = X_i \Upsilon + age_i + age_i^2 + M$us year dummies + $\varepsilon_i$

$y_i$ is monthly earnings in logarithm and $X_i$ is a vector of earnings predictors including dummy variables for the seven education levels, nine industry categories, and seven occupational categories. There are age and its square and dummy variables for each year in the MUS as the control variables.

3. $y_i^s = \beta y$hat$_i^f + a_i^s + a_i^{s2} + T$SCS year dummies + $u_i$

$y_i^s$ is sons' log monthly earnings and ($y$hat$_i^f = X_i^f \Upsilon$ hat) is fathers' predicted log monthly earnings based on a vector of earnings predictors $X_i^f$ reported in the TSCS. There are sons' age, age squared, and dummy variables for each year in the TSCS as the control variables.
To estimate intergenerational earnings elasticity in 1990–1994, they replace fathers' missing earnings by average occupational earnings as the forth equation below.

4. $y_i^s = \beta y$bar$_i^0 + a_i^s + a_i^{s2} + T$SCS year dummies + $u_i$

Where $y_i^s$ is sons' log monthly earnings and $y$bar$_i^0$ is average earnings by occupation in logarithm. $y$bar$_i^0$ is obtained by dividing average household earnings.