A Test of the Becker and Tomes Mobility Model Involving Three Generations

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Abstract

The bulk of the literature on mobility uses data on two generations to estimate children's earnings as a function of fathers' earnings. Solon (1999) presents a theoretical derivation for this relationship adding the assumption of identical children's endowments to the Becker-Tomes (1979) model. Estimating the additional relationships between a child's earnings and family background implied by the Becker-Tomes model, I find that the estimates contradict some of its predictions. I propose a modified version of the Becker-Tomes model and find that the estimates are consistent with its predictions. I use data from PNAD–a nationally representative household survey in Brazil–to build a data set spanning three generations. I find that family background explains 34.9% of the variation in earnings among males aged 16 to 27 who live with their parents. If there were no differences in endowments among children the variation in earnings would fall by no less than 26%. If it were possible to eliminate differences in investment in the children's human capital the variation in earnings would fall by no more than 21.1%.

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