

Occupational Choice and Returns to Skills: evidence from the NLSY79 and O*Net

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Abstract

Occupational choices carry substantial information about a worker's human capital. They are informative about a worker's education, experience and skills. Workers, however, self-select into their occupations. For this reason, occupational indicators are endogenous variables in any wage equation. This paper defines an occupation as a vector in a space of skill requirements, and proposes an instrumental variables approach to deal with endogeneity. I combine data from the National Longitudinal Survey of Youth, 1979 Cohort (NLSY79), with data from the Occupational Information Network (O*Net). By doing so, I instrument the math requirements of a worker's occupation in the 2000s with the math requirements of the worker's preferred occupation back in 1979. A similar instrument is used for language requirements. Such procedure allows me to measure the wage return to math and language skills for individuals represented by the NLSY79 sample.