Financial Pressure and Career Choices

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Abstract

This paper studies the effect of higher education financing, with a special focus on student debt repayment plan, on the human capital and the field of study of the U.S. population. I develop a dynamic discrete continuous choice model that allows for different education, occupation and fields of studies heterogeneity and I estimate it with rich financial data that allows to also models student debt decisions of individuals. The results show that changing the student debt repayment plan towards an income driven one increases graduation on average by 3p.p. The effect is stronger for low income individuals, suggesting that future income uncertainty can generate debt aversion, generating a barrier for higher education. Furthermore, moving towards a safer, more comfortable, repayment plan also changes the distribution of fields of the economy.

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