

How Large are Externalities in Human Capital Investment in Matching Models?

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Abstract

This paper examines time-consuming schooling investment in matching models of labor markets. Previous authors have exclusively focused on instant schooling in search models. The model with time-consuming schooling delivers the smaller externalities in schooling investments than the model with instant schooling. In particular, I identify parametric conditions under which no externalities are generated and equilibrium must be unique. Implications for interpretations of Mincerian earnings regression coefficients on schooling years are examined. Some recent authors use estimates of Mincerian earning regression to infer human capital stock levels. Explicit treatment of search frictions may affect some conclusions in this literature.

JEL Classification: E24; J24; J64

Key Words: Search and matching; Time-consuming schooling; External returns to schooling; Mincerian regression coefficients