

Endogenous Occupational Choice and Economic Development^{*}

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Abstract

This paper constructs the three-period overlapping generations model in which the determination of occupational choice (unskilled labor or skilled labor) is endogenous. In this model, work in childhood and education investment is strategic complements and as a result, multiple equilibria may arise: one is the low income equilibrium that there is child labor, the other is the high income equilibrium that there is no child labor. Which equilibrium is determined is affected by coordination policy. Friction of labor market prevents households from receiving education even if they receive education in no friction of labor market.

Keywords: Search; Matching; Overlapping generations model; Child labor; Coordination failure.

JEL Classification: E24, E61, O11.

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