

"Local Income Shocks and Skill Acquisition in the long-run: Evidence from Coffee Price Shocks"

An extensive literature generally finds that higher wages are associated with worse educational outcomes. However, previous studies tend to focus on short-run outcomes, including enrollment rates and frequency of school attendance, and it is unclear whether income shocks can have long-run repercussions on human capital and subsequent labor market outcomes. If these shocks simply represent intertemporal substitution of school time and children make up these differences in human capital over time, then such shocks do not necessarily would have long-run effects. This paper estimates the effects of exposure to income shocks in late childhood on long-run educational and labor market outcomes in Colombia. My identification strategy exploits sixty years of exogenous variation in coffee price shocks that affected cohorts differentially across different sites that vary in the intensity of coffee cultivation. I find that individuals exposed to increases in coffee prices in late childhood in areas where coffee cultivation is more prevalent have fewer total years of schooling, reduced literacy rates, and lower earning as adults. This evidence is consistent with the long-run primacy of time in the production function of human capital.