

LABOUR MARKET OUTCOMES AND SKILL ACQUISITION OF HIGH-SCHOOL DROPOUTS*

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Abstract

We utilize an instrumental variable approach to analyse the effect that dropping out of high school has on 17 outcomes pertaining to wages, employment and subsequent skill acquisition for youths. Our analysis is based on the older cohort of the Youth in Transition Survey (YITS) for 2003, an ideal data set because it contains a rich array of outcome measures and their observable determinants as well as variables for instrumenting the dropout indicator (based on a link to the 1999 data). Our analysis indicates that dropouts have poorer wage and employment outcomes, and they do not make up for their lack of education through additional skill acquisition and training. The analysis thereby suggests that policies to curb dropping out could have both desirable efficiency effects (high returns) as well as distributional effects (high returns to otherwise more disadvantaged groups) and potential social spillover affects.

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