Thesis Abstract

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The school to work transition and the early career path can be a difficult one for young people, especially to those with low education levels. The youth labor market is usually studied in isolation of the criminal sector, and yet youth account for a large share of crime. To study these outcomes jointly, I build and estimate a two-sector search model. Importantly, the legal labor sector has implications for the choice of whether to engage in crime through higher opportunity costs of getting arrested. The criminal sector affects the legal labor sector through the outside option of non-employment. Participating in crime may also affect the arrival rate of job offers. I estimate the model using a rich panel dataset of young offenders, the Pathways to Desistance. Search frictions in the legal labor sector are found to be significant, with low-quality jobs being offered. In contrast, the criminal sector provides an attractive alternative to the legal labor sector, offering an earnings premium. I show that reducing search frictions in the legal labor sector increases youth employment but has a modest reduction on crime, since individuals do not necessarily quit crime upon accepting a job. Instead, offering larger wages in the legal labor sector results in a large reduction in crime, with a small positive increase in employment. I provide evidence that worsening the conditions of the criminal sector (e.g., increasing frictions or lowering average criminal earnings) has important implications for crime and a small, but non negligible, positive effect on youth employment. Given the large interactions across sectors, policies that affect the criminal sector can be less costly than policies targeting the legal labor sector to increase youth employment. Moreover, policies that increase frictions in the criminal sector, rather than extending the average sentence length or increasing the arrest rate, have the advantage of reducing crime without large increases in the prison population.

Separating State Dependence, Experience, and Heterogeneity in a Model of Youth Crime and Education (with Salvador Navarro and David Rivers).

In this paper we study the determinants of youth crime using a dynamic discrete choice model of crime and education. We allow past education and criminal activities to affect current crime and educational decisions. We use the Pathways to Desistance to estimate the model. Taking advantage of a series of psychometric tests, we estimate a model of cognitive and social/emotional skills which feed into the crime and education model. This allows us to separately identify the roles of state dependence, returns to experience, and heterogeneity in driving crime and enrollment decisions among youth. We find small effects of experience and stronger evidence of state dependence and heterogeneity for crime and schooling. We provide evidence that, as a consequence, policies that affect individual heterogeneity (e.g., social/emotional skills), and those that temporarily keep youth away from crime, can have important and lasting effects even if criminal experience has already accumulated.