Thesis Abstract

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College Enrollment, Parental Transfers, and Student Loans (Job market paper)

Borrowing for post-secondary education has been increasing for several decades in the US. Besides student loans, family transfers are also an important source of funding for higher education. Recent evidence suggests that parents not only pay for their children's tuition but also provide potential support when they have difficulty repaying student loans. Given the high student loan default rate, some have proposed that student loan repayment schemes should provide more insurance against labor market risks through income-based repayments. However, there is concern that providing more insurance in student loan repayment could lead to large revenue losses for the program. To make the program self-sustaining, interest rates may need to increase, raising the costs of post-secondary schooling for many who currently repay their loans in full. This, in turn, may discourage some youth from attending college altogether. To study the effects of student loan policy when considering the insurance provided by parents, this paper develops a dynamic life-cycle model that allows for endogenous transfers from parents to children, along with children's education, borrowing, repayment, and labor market choices. After estimating the model using the National Longitudinal Survey of Youth 1997, I simulate the impacts of moving to a universal income-based repayment plan. Under the new policy, schooling choices are unaffected; however, students borrow more and repay less, although these changes are modest. The universal income-based repayment plan is welfare improving, with those of low ability and high parental income gaining the most. To keep the government budget fixed, interest rates must increase but this has minor effects on behavior.

Student Loan Policy and Labor Supply in Canada

The average amount of government student loans at graduation has increased notably in Canada, and there has been concern that this increased borrowing may have negative effects on students both before and after post-secondary education. To provide more insurance to borrowers, in 2009, Canada introduced a new Repayment Assistance Plan (RAP) to offer interest relief and debt reduction in different repayment stages. To study the effects of this repayment policy on borrowers' post-schooling behavior, this paper develops a life-cycle model with student loan repayment and extensive labor supply choices. Using the Survey of Labour and Income Dynamics (SLID), I estimate a dynamic life-cycle income process and calibrate the model to match the employment rates in the data. I simulate the effects of introducing the RAP plan on labor supply decisions and repayment rates. The employment rate declines by about 2-3% after RAP is introduced, and 80% of total debt is repaid at the end of the repayment period.