

## **HUMAN CAPITAL, BUSINESS CYCLES AND LABOR SUPPLY VOLATILITY**

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### **ABSTRACT:**

This doctoral thesis investigates the effect of business cycles on individuals' decisions, with an emphasis on human capital accumulation. The first chapter shows that low-productivity individuals take advantage of the education sector during a recession by substituting schooling for work and accumulating more human capital. Whereas, high-productivity individuals face a lower unemployment rate and earn a higher labor income. Therefore, they are less likely to leave the labor market and accumulate more human capital. By using survey data from the Current Population Survey, I confirm that this was the case in the US for the period 1986-2011.

The findings of the first chapter have important implications on the volatility puzzle in Real Business Cycle models. One of the shortcomings of these models is the inability to correctly predict the volatility of hours worked. Specifically, the volatility is lower than empirical estimates. The second chapter shows that it is possible to improve the ability of the model to predict labor supply volatility by modeling heterogeneity in productivity. Further, previous papers in the literature find that education can explain the volatility puzzle in a representative-agent setting. I show that this is no longer the case once heterogeneity is introduced in the model and agents face a finite lifetime.

The third chapter focuses on the empirical relationship between business cycles and post-secondary education using Canadian data. The cyclical nature of schooling decisions has been extensively analyzed in the literature by using US data. However, there are no studies on the Canadian economy. Main results show that university enrollment is counter-cyclical. Ability, proxied by parental education, negatively affects the counter-cyclical nature of university enrollment. Further, economic downturns stimulate the acquisition of theoretical rather than practical education. In fact, contrary to university enrollment, college enrollment is pro-cyclical and enrollment in other (non-university) PSE institutions is acyclical. Finally, macroeconomic conditions mainly affect decisions of recent high-school graduates. Workers are not likely to return to school during recessions.