

# Risk preferences, information differentials and the conditional variance of wages

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High-achieving students from low-income families apply less to college compared to richer peers. Important explanations are differences in preferences and information asymmetries. This last type of explanation is founded on the existence of a steep socioeconomic gradient in information. This paper jointly analyzes the importance of private information and risk preferences in educational choices. I decompose the variance of wages conditional on education into wage uncertainty and unobserved heterogeneity. I use the estimates of wage uncertainty to see if students from underprivileged background are subject to more earnings risk when graduating from college compared to their peers. I then use the estimates of unobserved heterogeneity to test indirectly for the existence of a socioeconomic gradient in information. Finally I construct a test to assess the relative importance of each channel in educational decisions of students. Using the NLSY79, I find 1) strong differences in wage uncertainty within-group across parental background, 2) increasing wage uncertainty with education irrespective of parental background, and 3) increasing (resp. decreasing) unobserved heterogeneity with education for respondents from privileged (resp. underprivileged) backgrounds. These findings are consistent with a strong gradient in information. I conclude that information differentials must drive the enrollment gap more than preference heterogeneities. This finding is important for efficient policy design.