Discussion of "Job Search under Debt: Aggregate Implications of Student Loans"

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Intro

- Relationship between debt, job search, and life-cycle earnings when workers are risk-averse.
- Equilibrium search model taken to NLSY data.
- Main Findings:
  - Indebted workers search less, end up with lower wages - big and persistent effect.
  - Structuring debt repayments so as to provide insurance increases welfare.
  - A world with student debt is better than a world without: more skill, more productive workers, more vacancies by firms.

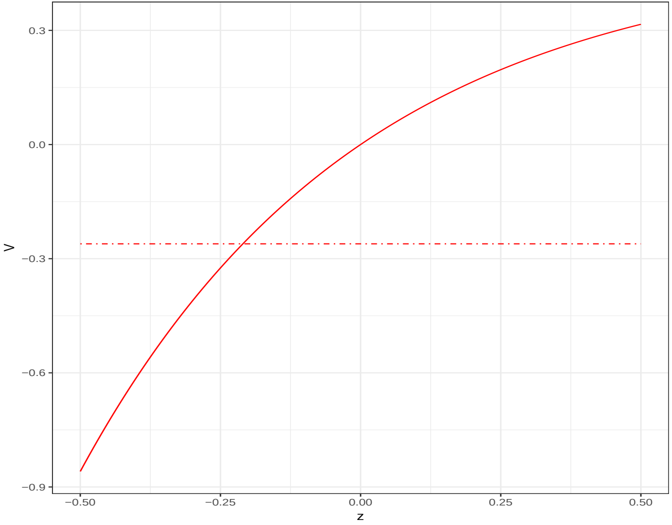
The Mechanism

- Search for jobs: sample one, decide whether to take it or sample another (one shot, no recall).
- Job switching decision: compare staying in the current job, or search for another (uncertain earnings).

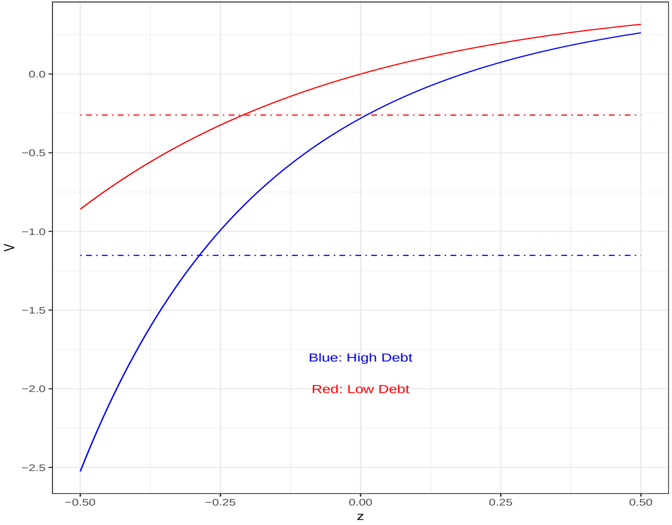
$$\max\left\{\frac{(e^z - b)^{1-\gamma}}{1-\gamma}, \int \frac{(e^z - b)^{1-\gamma}}{1-\gamma} dF(z)\right\} \tag{1}$$

conditional on knowing current z.

Current vs. New Job



High vs. Low Debt

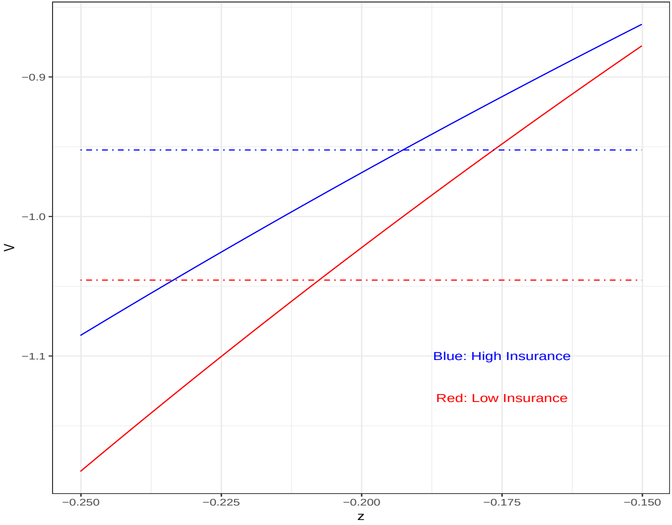


Insurance: Income-Based Repayment

- If debt b, repayment is $b(\tilde{z}) = \kappa_1 b e^{(z\kappa_2)}$ with $\kappa_2 > 1$.
- Low value of κ_2 little insurance, large value of κ_2 more insurance.
- Adjust κ_1 so that expected payment under z distribution is b.

$$\max\left\{\frac{(e^z - \tilde{b}(z))^{1-\gamma}}{1-\gamma}, \int \frac{(e^z - \tilde{b}(z))^{1-\gamma}}{1-\gamma} dF(z)\right\} \tag{2}$$

High vs. Low Insurance



College As A Risky Asset

- College is risky - dropout risk is large.
- In the US, about 50% of college students end up without a college degree (Hendricks and Leukhina (2017)).
- Interactions between debt, earnings, and dropout risk?
- Quantitatively important?

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Human Capital Portfolio

- Lots of heterogeneity in types of human capital.
- Debt repayment plan and field of study?
- "Safe" fields vs. "Risky" fields?
- Implications for occupational choice (Silos and Smith (2015), Cubas and Silos (2018).

Conclusions

- Great paper!
- Important question: ramifications to education finance policies, labor market policies, inequality, etc.
- Quantitatively sound mapping between model and data.