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Exogenous Wage Decline, Utility Changes, Endogenous Fertility, and Human Capital Accumulation

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Abstract

This paper analyzes the effects of wage decline by exogenous economic shock and individuals' utility changes on fertility rate and human capital accumulation using an overlapping-generations model, which is mainly based on Groezen, Leers and Mejidam (2003) and Cardak (2004). Although Groezen, Leers and Mejidam (2003) consider childcare cost and child allowances in a model of a small open economy, they ignore educational expenditures and do not analyze human capital accumulation. Although Cardak (2004) considers human capital accumulation and assumes it is determined by governmental or parental expenditures on education and by parent's human capital endowments, he ignores childcare cost and child allowances, and assumes population size is constant in each period. This study considers human capital accumulation in a model of a closed economy with endogenous fertility. We then consider the effects of declining wage rate on fertility rate, human capital accumulation, and economic growth when an individual's preferences for his consumption change. This paper is motivated by declining birthrate by the cost burden of educational expenses and wage decline by the coronavirus (Covid-19) pandemic in Japan. We find that increased preference for consumption of individuals decreases the number of children (reduce fertility rate), constricts human capital accumulation, and surely impairs economic growth when wage rate declines by exogenous economic shock.

Keywords: Wages, Human Capital, Child Support Policy, Fertility, Overlapping-generations Model.

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