

Children's Reputation, Parenting Style and Human Capital

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In this paper I investigate the relationship between parenting styles and parents' socio-economic characteristics. I adopt Holmstrom's model of career concern to explain parenting style choices and children's behavior. In the model both parents and the child are unaware of the child's ability. Child's effort, her ability and a stochastic term are the inputs of the child's human capital production function. Child's effort is imperfectly monitored by parents, who use the observed realization of the human capital as a signal of the child's ability. Such a signal is used to update their belief about the child's type. Thus, the child retains a piece of private information: the true signal about her ability. Parents are assumed to play the following strategy: whenever their beliefs are above a critical level they implement a *permissive* parenting style, when not they choose a *tough* parenting style. Following Martinez, (2001) it is possible to show that the effort strategy played by the child, against this cut-off rule, is unique. In this context, as in my job market paper, parenting style is conceptualized in terms of the strictness of the limits they set for their children on their time allocation. By reducing the value of leisure time children have available, stricter limits induce greater effort of children in terms of the time they devote to study.

The model is estimated using data from the NLSY97 by simulated maximum likelihood. The sample consists of about 1500 youths between the ages of 12 and 13 in 1997. In estimation parent's cut-off value is assumed to be a function of some of their own observable characteristics: race, education, income and religion. In order to overcome the computational difficulties given by the fact that parent's beliefs are an unobservable state variable, I adopt the method developed by Keane and Wolpin (2001) to estimate the structural parameters of the problem. I use the estimates of the model to construct a finite number of cut-off values, which are related to parents' socio-economics background. These values are used as a metric to establish how children's behavior would change if they were to face different probabilities of being subject to strict parenting in the future.