

## **Economics Seminar, Indian Statistical Institute, New Delhi.**

**SPEAKER:** Indrajit Thakurata,

**TITLE:** **RICH DAD, POOR DAD: LIFE-CYCLE PORTFOLIO SAVINGS & HUMAN CAPITAL ACCUMULATION**

**TIME:** 3:30 PM - 05:00 PM

**DAY & DATE:** Wednesday, 23<sup>th</sup> July, 2014.

**PLACE:** Seminar Room 2

**Abstract:**

This dissertation extends the human-capital and intergenerational literature by examining a two-generation life-cycle problem of an altruistic parent valuing the human-capital of his offspring and facing competing challenges of his consumption needs during working life and retirement, his dependent child's consumption needs and human capital requirements. The parent's wages are uncertain and he faces bequests, pension-savings and borrowing constraints. This study explores three income categories, with different levels of financial access and human-capital investment options and compares life-cycle profiles under varying scenarios of education subsidies, wage risk, child ability, asset returns, asset risk and different correlations between asset and wage shocks. The two-generation life-cycle problem was solved using Value Function Iteration (Bellman Equations) where each value is recursively written as a function of the subsequent value. Mean profiles were then generated by simulations.

The study finds evidence that explicit valuing of human capital, separate from consumption it affords, is important for human capital acquisition. Simulations replicate child-labor as an optimal strategy of a very poor household to lift consumption to subsistence level. Financial inclusion (bond market access) has the maximum impact on human-capital acquisition and consumption. Extra income and stable wages raise consumption but not education.

With somewhat higher incomes, evidences of partial education were found. For this category, extra-cash has the maximum impact on education. Stock market access and the parent's valuing of education are other important variables. Higher ability has a domino effect as it also increases educational investment as do education subsidies and wage uncertainty. Contributed- pension-fund savings reduces human capital acquisition.

Simulations confirm that rich children get full education with maximum investment. For this category, financial savings and portfolio choice becomes crucial. Optimal portfolio choice, apart from varying with age and wealth, depends on the stage of life in intergenerational context. With correlated wage and stock market shocks, the portfolio rule for a parent with a dependant offspring is significantly different from that of a single individual.

Solving the seventy period recursive problem enables this study to quantify the marginal impacts of financial and human-capital parameters on life-cycle profiles while integrating the literature on intergenerational set-up with the literature on risk and portfolio choice.

<http://www.isid.ac.in/~pu/seminar.html>