The Determinants of Teachers’ Occupational Choice∗

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Abstract

Among college graduates, teachers have both low average AFQT and high average risk aversion. Using a dynamic optimization model with unobserved heterogeneity, we find that the low mean AFQT score among teachers primarily reflects a low return to other skills, correlated with AFQT, rather than a low return to cognitive skill within teaching. The compression of earnings within teaching attracts relatively risk-averse individuals. Were it possible to make teacher compensation mimic the return to skills and riskiness of the non-teaching sector, overall compensation in teaching would increase. Moreover, such a shift would substantially reduce the utility of many current teachers, making the process of reform challenging. Importantly, our conclusions are sensitive to the degree of heterogeneity for which we allow, and even a model with no unobserved heterogeneity appears to fit well within sample. It would be easy to conclude that allowing for two or three types fits the data adequately. Formal methods reject this conclusion. The BIC favors seven types. Ranking models using cross-validation, eight types is better although the improvements from going from six to seven, from seven to eight types and from eight to nine types are noticeably smaller than those from adding an additional type to a lower base. Importantly, the results of policy exercises are very sensitive to the degree of heterogeneity included in the model.

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