



Appendices

**INTERGENERATIONAL INCOME ELASTICITIES, INSTRUMENTAL VARIABLE
ESTIMATION, AND BRACKETING STRATEGIES**

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March, 2019

C. Sample, variables and related issues

Like Hertz (2007), I define “child” broadly to include anyone of the right age reported in the PSID to be either the son, daughter, stepson, stepdaughter, nephew, niece, grandson or granddaughter of the household head or his wife (or long-term partner).² As Hertz (2007:35) put it, “the idea is to look at the relation between children’s income and the income of the households in which they were raised, even if that household was not, or not always, headed by their mother or father.” Similarly, when the children are 1-17 years old, the “father” is the household head (if the head is male), while the “mother” is either the household head (if the head is female) or the head’s wife or long-term partner. When the children are older than 17, the father and mother are those determined to be the father and mother at age 17.

The annual measures of family income are based on the PSID notion of “total family income.” But as the income components the PSID used to compute total family income are effectively affected by top coding in the period 1970-1978 (i.e., top codes were not only in place but were “binding” in that period for some people), and the PSID-computed total-family income for those years is based on these top-coded values, I proceeded as follows: (a) I addressed the top-coding of all income components in 1970-1978 by using Pareto imputation (Fichtenbaum and Shahidi 1988), and (b) I recomputed total family income for those years with the Pareto-imputed component variables.

I only estimate IGEs of family income, not of earnings. There are two reasons for proceeding this way. First, the IGEs of children’s individual earnings need to be estimated separately by gender, but the available PSID sample is rather small for IV estimation even when men and women are pooled (as I do in all analyses). Second, in the case of the IGE of the geometric mean, short-run estimates are affected by (potentially severe) selection biases because

