Actors in the Child Development Process

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Abstract

We construct a model of child development in which the parents and the child make investments in the child's cognitive ability, with the child's decision limited to the amount of time they spend studying. In each period of the development process, parents act as Stackelberg leaders with the child being the follower when setting her study time. We then extend this non-cooperative form of interaction by allowing parents to offer a child consumption schedule that is an increasing function of the child's study time. In order to implement this procedure, the parents must pay a monitoring cost to measure the child's effort. This incentive scheme produces efficient outcomes and, in general, increases the amount of the child's cognitive ability. We find that near the end of the development process, nearly 70 percent of households utilize these internal conditional cash transfers. Using model estimates, we explore the impact of various government income transfer policies on child development. As in Del Boca et al. (2016), we find that the most effective set of policies are (external) conditional cash transfers, in which the household receives an income transfer given that the child's cognitive ability exceeds a pre-specified threshold. We find that the use of internal cash transfers greatly increases the cost effectiveness of external cash transfer policies.