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THE IMPACT OF THE MINIMUM WAGE ON EDUCATIONAL EXPECTATIONS OF TEENAGERS

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Background: Teenagers are likely affected by minimum wage policies

- Teenage unemployment (Kabátek 2020, Kreiner et. al 2020, Neumark et al. 2014)
- Discouraging effects on educational investments (myopic decision making)



Inconclusive evidence: Neumark & Shupe 2019,
Warren & Hamrock 2010, Neumark & Wascher 2003

Research Question:

Do teenagers adjust their educational plans due to the minimum wage even if they are exempt from the minimum wage?



INTRODUCTION OF THE MINIMUM WAGE IN GERMANY IN 2015

8,50 Euro

Exemption for teenagers (below age 18)

- **Variation in the bite**

Share of affected teenagers in the regional labor market: M 36.4/SD 13.3

- **Variation in educational degrees**

Students in lower track of the three-tier education system of secondary schools are mostly affected

- T: Lower track students
- C: Intermediate track students

- **Outcome: Educational Expectations**

Expectation to obtain intermediate school degree or higher (=1), observed each year from grade 5 to grade 9.
Share in 2014: M 0.82 ($M_T \sim 0.6$, $M_C \sim 0.9$)

Expectation to obtain intermediate school degree or higher

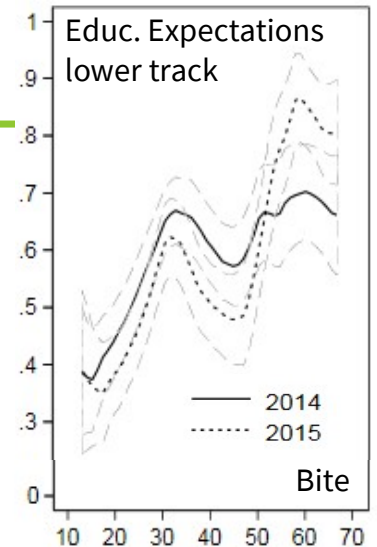
	Diff-in-Diff	Diff-in-Diff-in-Diff
Post	-0.006 (0.011)	0.021** (0.011)
Post × Bite	0.002** (0.001)	0.000 (0.001)
Track (Low = 1)		-0.228*** (0.033)
Track × Post		-0.105*** (0.024)
Track × Bite		0.008*** (0.002)
Post × Track × Bite		0.005*** (0.001)
N	8,828	8,828

p < 0.1 p < 0.05 p < 0.01 Standard Errors are clustered at the level of labor market regions. All models include time fixed effects. Source: NEPS - Starting Cohort 3.

SUMMARY AND CONCLUSION

Minimum wages affect teenagers' plans to invest in schooling despite exemption

- Increase in educational expectations of lower track students in regions with many affected teenagers compared to low-bite regions
- No differential effect by gender, parental education, migration background
- Results are robust to a wide range of sensitivity tests, e.g. state x time interactions, placebo estimates



Students adjust educational investment behavior, when expected wages and employment prospects change

Policy makers concerned about deterring teenagers from investing in education should consider labor market conditions and student qualifications, when introducing minimum wages

Theoretical Model: Lower schooling investment in the 1. period results in

- lower employment prospects and
- lower wage level in the 2. period.

These losses may outweigh the min wage induced increase in costs of foregone earnings during schooling.