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The returns to cognitive abilities and personality in Germany

Abstract

We provide the first joint evidence on the relationship between individuals' cognitive abilities, their personality and earnings in Germany. Using data from the German Socio-Economic Panel Study, we employ two ultra-short IQ-tests and a set of measures of personality traits, namely locus of control, reciprocity and all basic items from the Five Factor Personality Inventory. Our estimates suggest a positive effect of so-called fluid intelligence or speed of cognition on males' wages that mainly vanishes once individual heterogeneity is accounted for. Findings for personality traits are more heterogeneous. There however is a robust wage penalty for an external locus of control.