

THE RETURNS OF LITERACY, CREATIVITY AND OTHER ABILITIES

Alice Heegaard Klynge

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Abstract

The aim of my research is to investigate the returns of use of abilities in a number of areas. For example, whether use of literacy (reading comprehension and math) produces a higher wage over use of creativity or use of communication ability. To answer the question, I analyze a Danish survey on adult abilities. The survey measures use of literacy, creative ability, communication ability, and other abilities. Each ability is pinpointed and measured with a range of questions. I create an index for each ability based on factor analysis. I combine a selection model with a hedonic wage model to describe the link between abilities and wage. The model assumes that workers have a taste (or distaste) for using the abilities and that certain employers value certain abilities differently. The model illustrates that workers select an occupation based on wage and their favored abilities and that abilities produce a varied return. The identification of the model parameters takes into account that abilities are only observed for the occupation selected. This identification is a work in progress. A simple wage regression on abilities show that the estimate for literacy is higher than the estimate for creativity and lower than the estimate for communication ability.

Correspondence: Alice Klynge, PhD student, Department of Economics, University of Copenhagen, and visiting student, Department of Economics, Yale University. E-mail: alice.klynge@econ.ku.dk. Homepage: www.econ.ku.dk/klynge.