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Title:

Occupational Choice, Specific vs. General Human Capital Investments under Uncertain Terms of Trade

Abstract :

I provide a dynamic extension of the model of occupational choice and trade which is previously introduced in Ichida (2006). When the individual agents face uncertainty in terms of trade, what type of human-capital investments becomes the optimal strategy for individual agents? Contrary to the related previous work by Findlay-Kierzkowski (1983), I assume that individuals are heterogeneous in their innate capabilities in multi-dimensions. In this case, do they try to specialize by investing in what they were good at when they were born? Do they try to be generalists by investing in general human capital? Or do they invest in what they were not good at originally to insure themselves against adversities? I find the conditions about when agents will invest in general skills and when they specialize their skills. Depending on parameter values, it is quite possible for ALL individuals to invest in their innately strong skills even if there is no insurance market.