Mobility and Student Loans *

Ryota Nakano†

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Abstract

Government policy intervention in education is justified because of the positive externality and incomplete credit market for educational investment. The decision of whether and how much to borrow for educational costs from the credit market crucially depends on parental investment in education. In this paper, we construct a simple two-period OLG model with both educational investment from parents and student loans. The analysis show that in the case where educational investment from parents and student loan are substitutive, the relaxation of the borrowing constraint increases intergenerational mobility. In the complementary case, the relaxation of the borrowing constraint improves efficiency but may decrease intergenerational mobility.

Keywords: educational borrowing, intergenerational mobility, higher education

JEL Classification Numbers: I22, I24, J62

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†Graduate School of Economics, Osaka University, 1-7, Machikaneyama, Toyonaka, Osaka, 560-0043, JAPAN; e-mail address:r.nakano1028@gmail.com