

DISSERTATION ABSTRACT

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“Essays on the Self-Employment of Young Workers”

My dissertation examines three aspects of young workers’ self-employment activities using data from the 1979 National Longitudinal Survey of Youth (NLSY79).

“Risk, Liquidity Constraints and Self-Employment”

Risk tolerance and liquidity constraints are widely believed to be key determinants of self-employment, but their independent effects have proved difficult to identify. In this essay, I specify a theoretical model that illustrates how individual risk tolerance and liquidity constraints affect the decision to become self-employed. I then tackle the empirical identification problem by constructing a measure of risk tolerance that is corrected for reporting error, varies with age and assets, and allows for the endogeneity of assets. In contrast to previous studies that use regional variation in housing prices as an instrument for assets, I address the fact that housing appreciation affects homeowners and nonowners differently. I find that risk tolerant workers are more likely to be self-employed than are their less risk tolerant counterparts. However, net asset levels have an insignificant effect on self-employment entry once absolute risk tolerance is properly taken into account. My findings refute the widely-held belief that liquidity constraints are important deterrents to self-employment, especially among minority workers.

“Racial Differences in Self-employment Exits”

The absence of successful businesses owned by minorities, and by blacks in particular, is a concern for policy makers. In the second essay, I exploit detailed work history data in the NLSY79 to provide new evidence on the reasons behind the race gap in self-employment. My analysis of an “age uniform” sample of men, all of whom are observed from age 22 to age 40, reveals that racial differences in cross-sectional self-employment rates are largely due to the fact that minority workers’ self-employment spells are relatively short-lived. Moreover, I find that minority workers’ relatively high exit rates from self-employment are caused primarily by transitions to nonemployment. Estimates from a multinomial logit model of self-employment exits suggest that minority workers’ weak attachment to the labor market prior to entering self-employment is an important determinant of their self-employment to nonemployment transitions, while lack of prior industry and self-employment experience contributes to minorities’ transitions to nonself-employment. When I assign blacks and Hispanics the same (mean) work histories as whites, the predicted black-white gap in the first-year self-employment survival rate decreases by 34% and the Hispanic-white gap decreases by 15%.

“Self-Employment and Career Choices of Young Workers”

In the third essay, I investigate how self-employment experiences fit into workers’ longer-term career paths. I determine how frequently workers use self-employment as an opportunity to change their occupation or industry and, alternatively, how often they enter self-employment without significantly altering the type of work they do. My goal is to learn how often self-employment is used as a mechanism to launch a new “career,” and whether self-employed “career changers” and “career extenders” differ in such outcomes as earnings and job duration. Preliminary evidence suggests that self-employment tends to be more successful—as measured by wage gains and job longevity—when individuals build upon a career launched while working for others.