

**CREDENTIALS AND LEARNING IN THE LABOUR MARKET
FOR YOUNG AUSTRALIANS**

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DECLARATION OF ORIGINALITY

I hereby declare that this thesis is my own work, and that, to the best of my knowledge and belief, it contains no material previously published or written by another person, nor any material that has been accepted for the award of any other degree or diploma of a university or other institute of higher learning, except where due acknowledgement is made in the text.

A handwritten signature in black ink, appearing to read 'S. Cheung', with a long, sweeping flourish extending to the right.

Stephen L. Cheung,

August 2006.

ABSTRACT

This thesis reports two tests of information-based theories of the returns to education, in the labour market for young Australians. The first is a test of whether these returns increase discontinuously with credentials such as high school graduation and university degrees. The second is a test of employer learning based upon how the returns to education, and to measures of ability not initially observed by employers, evolve with experience. These tests are conducted using a new data source which tracks individuals during the years in which they are entering and establishing themselves in the labour market, the period during which such credential and learning effects are most likely to be important.

It is found that there are large and highly significant credential returns to completion of bachelor's degrees, of 14% for males and 10% for females. For males, around 39% of the returns to 15 years of education (relative to 9 or fewer years) are attributable to credential effects, while the corresponding figure for females is 36%. These effects are stronger among workers who were recruited through hiring channels that convey less initial information to employers. There is also evidence that post-secondary admission or attendance without completion of a credential may itself have a sorting effect in the labour market.

In the employer learning estimates, when parental education is used as a measure of ability observed by the researcher but not initially by employers, it is found to become increasingly correlated with wages as experience accumulates. However, no such result is found when a standardised test score is used as the ability variable – apparently because the information captured by this score is already observed by employers at the time of labour market entry. When the model is estimated separately by occupational class, the finding of employer learning holds only among white-collar workers. This may be due to the types of attributes that are reflected in parental education as a measure of initially unobserved ability.

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