

[IZA News](#)[About IZA](#)[Organization Chart](#)[People](#)[Research](#)[Labor Policy](#)[Publications](#)[Discussion Papers](#)[Policy Papers](#)[Standpunkte](#)[Books](#)[Research Reports](#)[IZA Compact](#)[IZA in the Press](#)[Publication Record](#)[Journals](#)[Events](#)[IZA Prize / YLE Award](#)[Teaching](#)[Links / Resources](#)[Press](#)

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Heterogeneous Income Profiles and Life-Cycle Bias in Intergenerational Mobility Estimation

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Abstract:

Research on intergenerational income mobility is based on current income since data on lifetime income are typically not available for two generations. However, using snapshots of income over shorter periods causes a so-called life-cycle bias if snapshots cannot mimic lifetime outcomes. Using uniquely long series of Swedish income data, we show that current empirical strategies do not eliminate such bias. We focus on the widely adopted generalized errors-in-variables model and find that the remaining bias is substantial (20% of the true elasticity from left-side measurement error at the most relevant age range). IV estimates suffer from even stronger life-cycle effects and do not provide an upper bound. Inconsistencies stem from the interaction of two factors: heterogeneity in income profiles cannot be fully accounted for, and idiosyncratic deviations from average profiles correlate with individual characteristics and family background. We discuss implications of our findings for literatures that depend on measurement of long-run income and income dynamics.

Text: See [Discussion Paper No. 5697](#)



[Back](#)