

The Importance of Ability Bias and Leaving School Before the Exam in Analysing Academic Performance^{*}

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ABSTRACT

In this paper, we use a recent panel data set from New Zealand to examine the link between the academic performance and the decision of teenagers to drop out of school before the exam at the end of year 10. These choices have significant lifetime economic impacts, since early school leaving in many cases closes pathways to further education. We address the potential ability bias and endogeneity and error correlation of potential performance in national examinations and earlier school leaving choices. The analyses incorporate the effect of academic ability (childhood IQ and scholastic measures), parental education, family resources at different points in time while the child is growing up, and school and peer characteristics. Birth month provides an instrument to be used in the equation for drop out, because those born in particular months can legally leave school before the exam takes place whereas the other students cannot do this. The results show that those who drop out early are unlikely to have performed well in the exam. In addition, the difference between those who drop out and those who continue at least up to their exam is almost completely explained by observed factors. However, leaving out those variables which are often not available in other datasets, such as childhood IQ or childhood family resources information, we find that ability bias does pose a problem.

JEL classifications: I21, J13, J24, J18

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