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Intergenerational Mobility Measurement with Latent Transition Matrices

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We propose a novel multivariate approach for the estimation of intergenerational transition matrices. Our methodology grounds on the assumption that individuals' social status is unobservable and needs to be estimated. It allows the clustering of both parents and offspring based on the observed levels of income and occupational categories, thus avoiding any discretionary rule in the definition of class boundaries. The resulting transition matrix is a function of the posterior probabilities of parents and young adults of belonging to each class. Estimation is carried out via maximum likelihood by means of an expectation-maximization algorithm. We illustrate our method using National Longitudinal Survey Data from the United States in the period 1978-2006.