

The Effect of Cohort Size on Youth Earnings*

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Abstract

In this paper, I use data from both the Canadian Labour Force Surveys (LFS), and the 2001 and 2006 Canadian Censuses to estimate the impact of an important labour supply shock on high-school graduates earnings. The abolition of Ontario's Grade 13 generated a double cohort of high-school graduates that simultaneously entered the Ontario labour market, generating a large and sudden increase in the labour supply. This provides a rare occasion to measure the impact of cohort size on earnings without worrying about the supply shock being confounded with unobserved trends—a recurring problem in the literature. The census findings suggest that the effect of the supply shock is statistically and economically important, depressing weekly earnings by 5 to 9 percent. This effect is indeed important, especially if we consider that it is estimated two years after the double cohort. The LFS results suggest that the immediate impact of the supply shock—about six months after high school graduation—is larger in magnitude (between 14 and 25 percent).

Keywords: Labour Supply Shock, Youth.

JEL classification: J10, J20, J21.

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