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The Effect of Income Changes on the Accumulation of Children's Cognitive and Non-Cognitive Outcomes

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The main scope of this paper is to assess the relationship and pathways that link gains and losses in household disposable income to the cognitive and non-cognitive development of children. In particular, I use test scores reflecting linguistic ability (e.g. the BAS naming vocabulary and verbal similarity) to proxy for cognitive skills and internalizing and externalizing behaviour, measured with the Strengths and Difficulties Questionnaire (SDQ), to proxy for non-cognitive skills. Applying a value added model to data from the UK Millennium Cohort Study (MCS), I find that income losses are correlated with significantly lower cognitive and non-cognitive development of children across ages 3 to 15, while income gains matter only for cognitive skills. I also find that the effect on non-cognitive skills is partly mediated by the mental and physical health of the mother, which acts as a channel for the effect of economic hardship, and does not reflect other life events such as job-loss or separation. The evidence further suggests that the bottom quintile of non-cognitive skills is “stickier” than the cognitive skills’ one, with income gains having no significant effect in predicting the probability of exiting the bottom of the skills distribution.