

## The Co-Evolution of Skills and Preferences of School-Age Children

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### Abstract

This project casts light on how cognitive skills and economic preferences such as patience and prosociality develop during childhood and youth. The literature proposes several channels by which skills and preferences influence each other, often with opposing directions of causality. In addition, skills and preferences can only be measured noisily.

To overcome these challenges, we rely on recent identification results and estimation methods for nonlinear dynamic latent factor models. This allows us to quantify the bidirectional effects between skills and preferences without imposing a direction of causality. The resulting latent factor model is estimated on unique panel data of 700 children followed over 5 years. Each year, skills were assessed with comprehensive tests and preferences were elicited in incentivized games. This wealth of data allows us to draw a detailed picture of the interplay of preferences and cognitive skills.