



**POPULATION AGING RESEARCH CENTER**  
**UNIVERSITY *of* PENNSYLVANIA**



---

**The Intergenerational Transmission of Income  
Volatility: Is Riskiness Inherited?**

**Stephen H. Shore**

**PARC Working Paper Series**

**WPS 06-10**

"The author acknowledges the support of the National Institutes of Health -  
National Institute on Aging, Grant number P30 AG12836, B.J. Soldo, PI"

---

**3718 Locust Walk • Philadelphia, PA 19104-6298 • Tel 215-898-6441 • Fax 215-898-2124**

# The Intergenerational Transmission of Income Volatility: Is Riskiness Inherited?

Stephen H. Shore<sup>123</sup>

October 14, 2005

<sup>1</sup>University of Pennsylvania, Wharton School. Email: [sshore@wharton.upenn.edu](mailto:sshore@wharton.upenn.edu). Please contact author at: 3620 Locust Walk, 3012 Steinberg Hall-Dietrich Hall, Philadelphia, PA 19104; 215-898-7770.

<sup>2</sup>I thank Allison Heck and Seth Zeleznik for outstanding research assistance. I received helpful comments from Sara Jaffee, as well as seminar participants at the Wharton School. I gratefully acknowledge financial support from the National Institutes of Health - National Institute on Aging, Grant number P30 AG12836, the Boettner Center for Pensions and Retirement Security at the University of Pennsylvania, and National Institutes of Health – National Institute of Child Health and Development Population Research Infrastructure Program R24 HD-044964, all at the University of Pennsylvania.

<sup>3</sup>JEL Classification: J62 (Mobility, Unemployment, and Vacancies – Job, Occupational, and Intergenerational Mobility)

## **Abstract**

This paper examines the intergenerational transmission of income risk. Do risky parents have risky kids? Income volatility, a proxy for risk, is not observed directly; instead, it must be estimated – with substantial error – from the time-series variability of income. I characterize a process for income and use it to obtain individual-specific estimates of permanent and transitory income volatility for parents and their adult children in the Panel Study of Income Dynamics (PSID).

I find that parents with higher income volatility have children with higher permanent income volatility. This effect is similar in magnitude to the intergenerational transmission of education. These results are apparent only after correcting explicitly for the attenuation bias induced by measurement error in the parents' volatility parameters.