

The Economics and Psychology of Inequality and Human Development

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Abstract

Recent research on the economics of human development deepens understanding of the origins of inequality and excellence. It draws on and contributes to personality psychology and the psychology of human development. Inequalities in family environments and investments in children are substantial. They causally affect the development of capabilities. Both cognitive and noncognitive capabilities determine success in life but to varying degrees for different outcomes. An empirically determined technology of capability formation reveals that capabilities are self-productive and cross-fertilizing and can be enhanced by investment. Investments in capabilities are relatively more productive at some stages of a child's life cycle than others. Optimal child investment strategies differ depending on target outcomes of interest and on the nature of adversity in a child's early years. For some configurations of early disadvantage and for some desired outcomes, it is efficient to invest relatively more in the later years of childhood than in the early years.

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