

# Who Wants to Be an Entrepreneur?

## Entrepreneurial Activity, Social Skills and IQ

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### Abstract

We study how the trade-off between being an entrepreneur and investing in the financial markets is affected by cognitive ability and social skills. We test these hypotheses using a unique dataset that has available information on individual characteristics and choices for a representative sample of the Swedish population over 1966-2006. We show that social skills – i.e., willingness to assume responsibility, independence, outgoing character, persistence, emotional stability, initiative and the ability to continuously interact with other individuals – are the main factor that affect the decision to be an entrepreneur. The impact of social skills is magnified by the characteristics of the environment as both the presence of local entrepreneurship in the area in which the individual operates and the degree of entrepreneurship of the parental family magnify the effect of social skills in increasing the probability of being an entrepreneur. Social skills lead to lower financial performance and higher risk taking, suggesting that the effect of social skills is to lower the risk aversion of the individual. Our findings have normative and policy implications, suggesting that the choice of being an entrepreneur, as opposed to being a shareholder, is related to the social skills of the individual. Heritage and environmental constraints magnify the impact of social skills.

***JEL classification:* G11, M13, J24**

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## **Introduction**

One of the main questions in economics is why and when an individual decides to be an entrepreneur as opposed to investing in the stock market. This choice has profound implications for the entire economy, but has scarcely been investigated. On the one hand, the literature has investigated the decision of second generation entrepreneurs to sell their family firms. The focus has been on the factors that make it difficult to transfer the control of the family firm to new generations and their inability to properly manage it. On the other hand, the literature has studied the determinants of stock market participation mostly focusing on the frictions – transactions and information costs – that affect the decision to enter the stock market (Vissing-Jorgensen, 2002, Attanasio and Vissing-Jorgensen, 2004, Vissing-Jorgensen, 2003). While these two choices have been investigated as separate issues, there has been no attempt to investigate the decisions as part of an overall choice on how to participate in the production sector.

In fact, these two choices are intimately linked. Indeed, a second generation entrepreneur who sells his shares in the family firm and invests the proceeds in the financial markets stops being an entrepreneur and becomes a portfolio investor. Similarly, an individual who decides to stay away from direct management and prefers indirect ownership and delegated portfolio investment chooses a risk and return profile different from the one that an entrepreneurial choice would have granted him.

The question therefore can be more broadly reformulated as what are the main traits that tilt an individual towards a risk-return profile in which the stress is on portfolio diversification as opposed to direct management of a company. In some way the question involves a trade off between investing in assets and managing people. The answer to this question is important not only because it allows us to better understand how and why different socio-economic systems – i.e., entrepreneurship- and family-based structure vs. diffused ownership capitalism – have originated and evolved, but also for its relevant normative implications.

We argue that a main factor that should affect both choices is the set of cognitive abilities and social skills each individual is endowed with and their interaction with the local environment. Economic and

psychology literature has consistently documented the power of cognitive ability (“IQ”) in predicting social and economic success (e.g., Becker, 1964, Griliches, 1977 and Jensen, 1998). However, the interest in non-cognitive ability is a more recent phenomenon. The study of the Perry Preschool Program done by Heckman, Malofeeva, Pinto, and Savelyev (2008) shows that traits other than those measured by IQ and achievement tests *causally* determine life outcomes. Motivation, sociability, the ability to work with others, attention, self-control, self-esteem, delay of gratification, also play a very important role (e.g., Borghans, Duckworth, Heckman, and ter Weel, 2008).

In our context, we argue that both features – i.e., cognitive ability and social skills – may affect market participation and influence the incentives to start or pursue an entrepreneurial activity. Limited cognitive ability constrains the ability to gather and process information, effectively increasing the cost of information. In other words, it generates a constraint that limits the capacity to process information, reducing the accuracy of the forecast of expected returns and increasing its uncertainty (e.g., Sims, 2003). The ensuing lower ability/willingness to take risk (e.g., Frederick, 2005, Benjamin, Brown, and Shapiro, 2006) reduces both the ability to manage assets as well the effectiveness in running an enterprise.

Lower social skills will instead reduce the ability to gather word-of-mouth communication and hampers the ability to effectively communicate and lead people. The former will limit the way social interaction reduces the psychological barriers to entry into the stock market (e.g., Hong Kubik, and Stein, 2004, Campbell, 2006), while the latter will reduce the ability to be an entrepreneur and manage a company (Hoffman et al., 2011).

This suggests that both higher skills and ability, by reducing information gathering and processing costs as well as lowering risk aversion make it easier to both be an entrepreneur and participate in the financial markets. However, the mix between cognitive ability and social skills should not only affect the overall risk taking behavior of the individual – i.e., increasing both stock market participation and the decision to be an entrepreneur – but it will also affect the mix between the two choices – i.e., whether to be either an entrepreneur or a stock market participant. Indeed, while both sets of skills change the ability

to learn of the individual, they act in a “different direction” with respect to the type of activity involved in the two forms of engagement.

Indeed, to be a successful entrepreneur requires the ability to continuously interact with other individuals, execute plans, exercise self-control, and delay gratification. In other words, managing a firm requires social skills to “handle” other individuals – i.e., being conversant in dealing with hopes, incentives, punishment. Being able to interact successfully with other individuals both increases the chances of success in the entrepreneurial venture and reduces the psychological burden of dealing with other individuals. Such a requirement is not there – or it is there to a lower degree – in the case of financial investment. Managing financial assets mostly requires a cognitive ability that allows the investors to be conversant with the financial principles of portfolio choice and asset management – i.e., returns, volatility, and correlation. This implies that, if, in the presence of limited attention and decreasing returns to scale in running many tasks at the same time, an individual is required to make a choice, the decision to be an entrepreneur as opposed to just investing in the financial markets should be mostly related to the social skills.

The effect of social skills should be emphasized by the “environmental conditions”. The presence of more entrepreneurs may induce the entrepreneur to mimic their behavior. The choice to be an entrepreneur may be easier if the parents were entrepreneurs themselves. That is, individuals with high social skills are more likely to become entrepreneurs if residing in areas with more thriving entrepreneurial activity and/or if their parents were entrepreneurs themselves. In contrast, this mimicking behavior should be lower in the case of cognitive ability.

In this paper, we test this hypothesis by relying on an unique dataset that has available information on individual characteristics and choices for a representative sample of the Swedish male population over 1966-2006. We are able to trace the same individuals since their childhood, knowing the wealth/income and socio-economic characteristics of their parental family as well as of the individuals themselves through the years. For each individual, we have information on their IQ and social skills as tested by the

Swedish authorities as they reached the age of compulsory military service (18 year old). This allows us to have a standardized form of psychological assessment broken down into its two main components: cognitive ability and social skills. We exploit cross-sectional variations in cognitive ability and social skills as well as their interaction with characteristics of the parental family and of the environment to investigate what drives the decision to be an entrepreneur.

We start by investigating whether and how skills affect the decision to be an entrepreneur. We document that both cognitive ability and social skills do in general increase the probability of being an entrepreneur. However, the effect is way stronger for the social skills. One standard deviation higher social (cognitive) skill is related to a 1.04% (0.60%) higher probability of being an entrepreneur.

The impact of social skills is magnified by the characteristics of the environment. Indeed, unconditionally, both the presence of local entrepreneurship in the area in which the individual operates and the degree of entrepreneurship of the parental family increases the probability of being an entrepreneur. One standard deviation higher local entrepreneurship (share of entrepreneurial income in parental income) is related to a 1.1% (1.8%) higher probability of being an entrepreneur. This effect is amplified by the social skills of the individual. One standard deviation higher degree of local entrepreneurship increases the probability of being an entrepreneur by 0.25% more in the case of individuals with a social skills one standard deviation above average.

Also, social skills magnify the impact of local unemployment on the decision to be an entrepreneur. One standard deviation higher local unemployment reduces the probability of being an entrepreneur by 0.17% more in the case of individuals with social skills above average. In contrast, cognitive ability does not seem to be related to the probability of being an entrepreneur in localities with higher unemployment. This evidence suggests that the decision to be an entrepreneur is related to the way individuals mimic their peers and that this is made possible by the joint interaction of the availability of social skills and the environment.

Next, we investigate how these skills affect the decision to participate in the financial market. We find that both cognitive ability and social skills do in general increase the probability of investing in the financial markets. However, the effect is way stronger for cognitive ability. One standard deviation higher social skills (cognitive ability) is related to a 1.6% (0.8%) higher probability of investing in the financial markets. In general, cognitive ability tends to magnify the effects of local knowledge spillover (positive effect of specialization) and local economic conditions (negative effect of unemployment). Interestingly, the degree of entrepreneurship of the family is positively related to the investment in the financial markets and this effect is magnified by the skills.

These results, jointly considered, suggest a different role of social skills and cognitive ability in affecting the way individuals approach the entry into the entrepreneurial/financial markets. The former stimulates mostly entrepreneurial activity, while the latter increases financial market participation.

To estimate the net effect of social skills for the choice entrepreneurial/financial participation, we focus on the percentage of financial income over total income of the individual – i.e., the net outcome of his entrepreneurial and financial choices – and relate it to the social skills and cognitive ability. We show that social skills are strongly negatively related to the percentage of financial income of the individual. While social skills reduce the percentage of financial income of the individual, cognitive ability increases it. One standard deviation higher social skills (cognitive ability) reduces (increases) the percentage of financial income by 8.6% (7.8%) of unconditional mean on average. The impact of social skills is stronger in the case of specialization, while the impact of cognitive ability is stronger in the case of unemployment.

If we focus on the components of the overall revenue, we see that social skills increase the percentage of entrepreneurial income and decrease the one of capital income. One standard deviation higher degree of social skills is related to an entrepreneurial income increase of 27.5% and a decrease of capital income 24.5%. Cognitive ability, instead, increases entrepreneurial income (but to the lesser degree than social skills), but has no direct effect on capital income.

What is the nature of the effect of social skills and cognitive ability? Better forecasting and managing ability or just lower risk aversion and higher willingness to take risk? We argued that social skills, by making interaction with other individuals easier and more effective, raise the incentive to take more risk. And indeed, we find a positive correlation between social skills and volatility and a negative one between them and returns. One standard deviation higher degree of social skills is related on average to 6.2% higher portfolio volatility and 1.3% lower return. In other words, social skills tend to incentivize risk taking and reduce financial performance. This finding is in line with previous findings showing that investors either have higher reliance on word-or-mouth or are overconfident on the information they acquired during the main activity or are subject to extrapolation bias that induces higher portfolio concentration in few assets and therefore higher risk. Cognitive ability, instead, positively affects risk return tradeoff by either increasing returns (for equally weighted portfolios) or reducing volatility (for value-weighted portfolios).

These results are robust to controlling for a panoply of income, wealth and socio-economic variables that may have affected the choice to become/stay entrepreneur, such as whether the locality in which the individual resides is politically right-or left leaning or is more leaning towards family values; the income and wealth of the individual and his parental family; the level of local unemployment and the individual labor and capital income; family socio-economic characteristics that may have affected the choice of individual, such as whether the parents married in childhood, whether the parents divorced during the childhood of the individual and his gender. We also control for the degree of specialization and diversity that lead to knowledge spillover that may affects the mimicking process through which individuals decide to become entrepreneurs or to invest in the capital market directly (Glaeser et al., 1992, Glaeser and Maré, 2001, Goetzmann et al., 2005).

One of the main features of our analysis is the ability to control for endogeneity or reflection problem issue (Manski, 1993). Indeed, IQ and social skills has always been accepted as an almost completely

exogenous characteristic for adults<sup>2</sup>. The fact that our rich dataset allows us to control for the characteristics of the parental family allows us to control for any potential residual spurious correlation related to IQ being related to family characteristics.

The closest paper to ours is the one of Heaton and Lucas (2000) in which the choice between financial market investment and entrepreneurship is modeled as a function of a return-risk framework. We relate to this paper, by empirically testing its main implication.

Our findings contribute to two separate strands of literature. The first is the one on entrepreneurship and family firms. Entrepreneurship research thus far has stressed the role of individual characteristics, access to initial capital (Evans and Jovanovic, 1989; Evans and Leighton, 1989), and, more recently, institutions and entry regulation (Desai et al., 2005; Klapper et al., 2006). The focus on family firms has mostly been on the difficulties in intergenerational transfer of control (Morck and Yeung, 2003, Perez-Gonzales, 2006, Villalonga and Amit, 2006, Bennedsen et. al, 2007, Bertrand, Johnson, Samphantharak, and Schoar, 2011). The second strand is the literature on limited stock market participation (Vissing-Jorgensen, 2002, Attanasio and Vissing-Jorgensen, 2004, Vissing-Jorgensen, 2003). We contribute by providing a unified view of the decision of being an entrepreneur and therefore carrying on the activity of the family firm inherited from the parents and the decision of participating in the stock market. We argue and show that one of the main determinants is the set of ability and skills of the individuals and the way they interact with the parental family and environmental constraints.

In doing this, we relate to the burgeoning literature on cognitive ability and the impact of IQ on stock market participation (Dewey and Prince, 2005, Christelis, et al., 2005, Grinblatt, et al, 2009a and 2009b). Our results are consistent with these ones inasmuch as the choice of stock market participation is concerned, but expand them by showing that social skills do indeed matter even for the stock market

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<sup>2</sup> For the discussion on this point refer to Jensen (1998), Heckman, Malofeeva, Pinto, and Savelyev (2008) and Borghans, Duckworth, Heckman, and ter Weel (2008)



participation choice. Moreover, we document a direct impact of the individual past – parental family influence, environment influence.

We also relate to the literature on social interaction (e.g., Hong et al., 2004), even if our focus is mostly on the innate determinants of social interaction and its focus on entrepreneurship.

We think that our findings have important normative and policy implications. Indeed, the main message is that entrepreneurship is very linked to social skills as opposed to cognitive ability. This may help to explain why family firms and direct entrepreneurship are more widespread in countries with higher social skills. In contrast, stock market participation and delegated financial investment is more related to cognitive ability. This suggests that fostering entrepreneurship education by stressing the development of social skills may be more relevant than the development of cognitive ability. The latter is more conducive to financial market participation.

The remainder of the paper is organized as follows. In Section 2, we describe the data. In Section 3, we investigate the relationship between skills and choice of being an entrepreneur. In Section 4, we focus on the effects of skills on the performance and investment behavior. A short conclusion follows.

## **2. Data**

In this Section, we describe the data we use, how we construct the main variables and provide some details about the Swedish institutional framework that makes this analysis possible.

### **A. Information on Cognitive Ability and Social Skills,**

The main source of data is provided by the IQ tests of the Swedish males when they enter military service as collected by the Swedish National Service Administration. Military enlistment during the time of our sample usually takes place the year a Swedish man turns 18. The enlistment process requires a medical exam, a check of physical fitness, a test of cognitive ability, and an interview with a psychologist. In the latter part, the assessment of social skills is performed. Unless the conscript is ruled to be unfit for service

due to medical problems, the check of cognitive and social abilities is always performed. A low score on cognitive and social tests does not lead to the decision not to enlist, but rather is used to assign the conscripts to different types of military services and assignments. The Swedish military has conducted tests of conscripts' cognitive and social skills since the mid 1940'es. All the men in our data had their cognitive and social psychological profiles evaluated according to a procedure that was adopted in 1972 (with minor revisions in 1995) and used uninterruptely for the whole span of our sample (Carlstedt, 1999).

Test of cognitive ability consists of four different parts (synonyms; inductions; metal folding and technical comprehension). The results of these tests are then transformed into a discrete variable of general cognitive ability ranging from 1 to 9. This variable follows a Stantine scale that approximates a normal distribution. In our analysis, we will further normalize this variable to a distribution with zero mean and unit variance. The resulting measure of *Cognitive Ability* is used throughout the paper.

Tests of social skills are based on interviews with a certified psychologist before the military draft. Each interview lasts around 25 minutes. The objective of the interview is to assess the conscript's ability to cope with the psychological requirements of the military service and, in the extreme case, war. Another explicit objective with the interview is to identify the individuals who are particularly unsuited for the military service due to some kind of antisocial personality disorder, difficulty in accepting authority or adjustment to a different environment, or violent or aggressive behavior (Andersson and Carlstedt, 2003). The psychologists assign each conscript a score from 1 to 9.

Which character traits and abilities give a high score at the enlistment interview? In other words, which are the salient features of the socials skills? According to the Swedish National Service Administration,<sup>3</sup> they are: a high ability to function in the military requires willingness to assume responsibility, independence, outgoing character, persistence, emotional stability, and initiative.

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<sup>3</sup> This discussion of the draft data draws heavily on an interview with Johan Lothigius, chief psychologist at the Swedish National Service Administration, carried out by Erik Lindqvist (August 25, 2004) and reported by Lindqvist and Vestman (2011).

According to researchers from Swedish National Defense College, the social skills are important for group cohesion. Citing previous research in psychology, Andersson and Carlstedt (2003) argues that group cohesion is the single most important factor that influences soldiers' ability to cope with war stress. The single most important cause of soldiers' mental breakdowns during combat is a breakdown of group cohesion. Lazarsfeld (1949) has shown the importance of group obligations rather than ideological considerations in motivating soldiers for battle. Also in this case, the raw results are transformed into a discrete variable of general cognitive ability ranging from 1 to 9. This follows the same Stantine distribution as the final test score for cognitive ability. We will further normalize this variable to a distribution with zero mean and unit variance and call it raw measure of social skills. Moreover, given that we will jointly assess the role of both cognitive ability and social skills, to make the analysis clearer and easier to interpret, we also orthogonalize social skills with respect to the cognitive ability. We therefore regress the raw measure of social skills on the measure of cognitive ability. The residuals of this regression represent our *Social Skills* variable. The results we report in the paper are for this measure. However, the results for raw measure of social skills do not differ from the ones reported.

This data has a very good ability to describe and predict both military service and labor market outcomes. Indeed, it has been shown (Carlstedt, 1999) that these tests – the ones to assess cognitive ability as well as the ones to assess social skills – have indeed a high degree of predicted power to assess the skills of the conscripts even after the completion of the military service.<sup>4</sup> Moreover, Lindqvist and Vestman (2011) shows that men who fare badly in the labor market - in the sense of long-term unemployment or low annual earnings - lack social skills but not cognitive ability. Our data has two further major advantages. First, the fact that the enlistment procedure always takes place around the age of 18 mitigates the problem of reverse causality with schooling and labor market outcomes. Second, we can link these data with both childhood and adulthood data via our dataset on individual characteristics (LINDA). This allows us to control for a host of other factors including the characteristics of the parental

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<sup>4</sup> Carlstedt (1999) show that those pre-service assessments correlates well with evaluations written by commanding officers during and after the service.

family and of the local geographical, economic and social environment in which the individual has grown up and resides. This information is detailed in the next section.

## **B. Demographic and Financial Information**

We derive information on the individuals using LINDA. LINDA (Longitudinal INdividual DATaset for Sweden) is a register-based longitudinal data set and is a joint endeavor between the Department of Economics at Uppsala University, The National Social Insurance Board (RFV), Statistics Sweden, and the Ministries of Finance and Labor. It consists of a large panel of individuals and their household members, which is representative of the population during the period 1966 to 2006. For each year, information on all family members of the sampled individuals is added to the dataset. Apart from being a panel which is representative of the population in general, the sampling procedure ensures that the data are representative for each year. Moreover, the same family is traced over time. This provides a real time series dimension, in general missing in surveys based on different cohorts polled over time.

The variables available include individual background variables (sex, age, marital status, country of birth, citizenship, year of immigration, place of residence detailed at the parish level, education, profession, employment status), housing information (type and size of housing, owner, rental and occupation status, one-family or several-family dwelling, year of construction, housing taxation value) and tax and wealth information. In particular, the income and wealth tax registers include information on labor income, capital gains and losses, business income and losses, pension contributions, taxes paid and taxable wealth. A detailed description of the dataset is provided by Edin and Fredriksson, (2000) and is available on the web site <http://linda.nek.uu.se/>. We do not have information on the implicit claims on retirement benefits through state provided pensions. However, it is worth mentioning that the level of these benefits (just like in most European countries) is directly related to the salary level. Therefore, by including the level of the non-financial income (wage, salary, etc.) we are implicitly and partially controlling for them.

The tax part deserves more detailed discussion. In Sweden, in addition to usual income taxation, there exists an additional wealth tax which is paid by every investor with net worth in excess of 900,000 SEK (about US\$90,000). The taxable wealth includes tax-accessed value of real estate, market value of publicly listed securities, balance of bank accounts and fair value of valuable possessions (including jewelry, cars, antiques, etc.). For the purpose of this paper, we compute the current market value of housing using the tax-accessed value provided by LINDA. We evaluate it at current prices by using the average ratio of market value to tax-accessed value that is provided for each year and county by Statistics Sweden.<sup>5</sup>

Data on individual investor portfolio composition is obtained from Swedish government records (KURU). These data are available because Sweden levies a wealth tax. In order to collect this tax, the government assembles records of financial assets, including mutual funds that are held outside defined contribution pension accounts. The records go down to the individual security level and are based on statements from financial institutions that are verified by taxpayers. The data set also provide information on real estate holdings, bank accounts, positions in bonds and derivatives and loans for population of the whole country. For a more detailed description of this dataset we refer to Calvet et al. (2007). The data are available for 1999-2006. Using this data, we can construct a set of variables. The first is *Stock market participation*. This is a dummy that takes the value of one if household members has invested in year  $t$  in the financial market and zero otherwise. We define as investment in the financial market the direct ownership of bonds, stocks, derivatives, or mutual funds in excess of 2,000 Swedish Kronor (SEK) for household (definition used by Statistics Sweden). The second set of variables represent the portfolio return and risk of the households. More specifically, *Equally (Value) weighted Portfolio Return* is the average monthly return for equally (value) weighted portfolios. We used holdings from KURU at the end

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<sup>5</sup> It may lack precision for summer houses if they are located in a county different from the one in which the household is residing, as no information about the location of summer houses is provided. We excluded observations for households that were in the sample for less than three years and households with the oldest member being younger than 18 years old.

of December and rebalancing portfolio in the end of June. *Standard deviation of Equally (Value) weighted Portfolio Returns* is calculated using monthly returns for given year.

In line with the literature, we define as “*Entrepreneur*” any individual who receive salaries or capital income from a business that she controls and in which she works at least part-time<sup>6</sup>. Most of the individuals we define as entrepreneurs run non-incorporated business and report their entrepreneurial income on their individual tax form. Also, in line with Holtz-Eakin et al. (1994) and Giannetti and Simonov (2009), we also define as entrepreneur an individual who runs his own business as a second job provided that in given year he derives more than 25% of its household income from entrepreneurial income. In the analysis, we will use the *Log (Entrepreneurial (Capital) Income)*. This is defined as the logarithm of Entrepreneurial (Capital) income (in SEK) plus one.

We also construct the following variables. To control for the “attitude” of the parental family toward entrepreneurship and financial markets, we define the *Share of Entrepreneurial (Capital) Income in Parental Income*. This variable is defined as the average share of Entrepreneurial (Capital) income in the parental family’s total income over the years in which the individuals were 1-16 years old.<sup>7</sup> We also define the *(Parental) Percentile of Labor (Capital) Income*. This represents the income class in which the individual’s household belongs to. We proceed as follows. First, we define the place of the given household in the overall distribution of households in LINDA for a given year (in ascending order, between zero and one). Second, we define the *Parental Percentile of Labor (Capital) Income* as the average of this variable over all the years during which the individual was between 1 and 16 years old.<sup>8</sup>

We also define a *Married* dummy and a *Divorced* dummy. They are defined as one if the adult individual in the household is, respectively, married or divorced at the end of previous year, and zero otherwise.

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<sup>6</sup> For that we used the definition of Statistics Sweden.

<sup>7</sup> For the variable to be defined, we require that there is a minimum of 2 observations in LINDA.

<sup>8</sup> The construction of these variables is driven by data availability. While we would ultimately prefer to use wealth, unfortunately, accurate estimates of wealth are not available for the earlier part of our sample.

Finally, we also define a set of dummies that control for family socio-economic characteristics that may have affected the choice of individual, such as whether the parents were married during his childhood (*Parents Married*) and whether the parents divorced during his childhood (*Parents Divorced*).

### **C. Local Geography Variables.**

In order to control for the effects of the environment in which the individual was raised and operates, we define a set of geography-linked socio-economic variables.

We take the view that cultural variables are important the level of municipality, whereas the economic shock tend to have wider macroeconomic effects. We therefore use cultural variables defined at the municipality level and economic variables defined at the Local Labor market Area (LMA) level. Furthermore, we define also most representative locality for individual during his childhood (locality in which he spends most time between age 1 and 16). For example, if individual during his childhood spend 3 years in Umea, and 10 in Gothenburg, we define Gothenburg as “representative LMA” (or *LMA at t0*).

We define *Local Entrepreneurship* as the fraction of number of households with a share of entrepreneurial income in excess of 25% of household income out of all households living in a given municipality. The measure of Local Entrepreneurship at childhood (*Local Entrepreneurship at t0*) are the averages of such a variable calculated when individuals were 1-16 years old.

We also consider as control variables whether the locality is right-or left leaning or is more leaning towards family values. The intuition is that a right-leaning (family values leaning) environment is more likely to foster an entrepreneurial spirit than a left-leaning one. The proxy that captures whether the locality is right-or left leaning (*Right-leaning municipality*) is an index between 0 (very left-leaning municipality) and 1 (very right-leaning municipality) of left-right tilt. It is calculated by using election results by municipality by political party and averaging it with time-dependent index of party position on “left-right” spectrum. The data on election results are from Statistics Sweden. The data on party

positioning on left-right spectrum are from Gilljam and Holmberg (1993, 1995), Holmberg (2000) and Holmberg and Oscarsson (2004). The index determined at election year is then used from the year preceding election year till (next election year-2). For example, we use elections of 1998 for period of 1997-2000, and for 2001 onward we used data for 2002 elections.<sup>9</sup>

The proxy for *Family values leaning municipality* is an index between 0 and 1 of family value tilt of municipality. It is calculated similarly to Right leaning municipality proxy above by using time varying index of party positioning on family values spectrum. It ranges from 0 (liberal values leaning municipality) and 1 (very traditional family-value leaning municipality).

It is important to note that the positions on either left-right or family values spectrum indeed varies with time, as Social Democrats moved from 0.28 to 0.36 on left-right scale, and the Green party moved from 0.5 down to 0.38 making positions of those two parties on left-right spectrum almost indistinguishable. Also, cultural (family) values tend to be distinct from political left-right values. For example, Christian Democrats tend to be on the left of Moderate party on left-right scale, but on the right of the Moderate party on family issues. In fact, the distance on family issues between Christian Democrats and Moderates is larger than the distance between Moderates and Reformed Communists.

To control for the local economy, we borrow from the literature on urban economics and city agglomeration. It has shown that knowledge creation and knowledge spillover are the main determinants of city agglomeration and development. The process of knowledge creation and spillover is triggered by professional specialization and proximity. For example, Glaeser et al. (1992) show that industrial competition and industry diversity are determining factors in growth, and Glaeser and Maré (2001) find empirical evidence suggesting that the development of human capital and within city knowledge transfer is the major vector of growth. Marshall (1890), Arrow (1962) and Romer (1986) argue that the main determinant of growth is specialization. Local monopoly increases growth as it allows externalities to be

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<sup>9</sup> The exception is 2006 elections where due to lack of data on party positioning, the results of 2002 elections were used.



internalized. The archetypal region envisioned by Marshall, Arrow and Romer is the Silicon Valley. Concentration of the high-tech industry around San Jose, California generates knowledge spillover between firms in the same industry.

Given that specialization and diversity lead to knowledge spillover and agglomeration, they may also affect the mimicking process through which individuals decide to become entrepreneurs or to invest in the capital market directly. Indeed, Goetzmann et al., (2005) show that the process of city agglomeration affects investor portfolio choice. We therefore need to control for it. We use two main measures that the literature on urban economics has identified as drivers of the process of knowledge spillover: specialization, and diversity. In constructing them we follow Glaeser et al. (1992).

Local Labor Market Areas (LMAs) are constructed by Statistics Sweden by utilizing observed commuting patterns. Within given LMA, individuals face the same economic conditions, opportunities and markets for goods and services because they can easily commute. As a result, the economic conditions and shocks are the same within LMA. To put things in perspective, Sweden has a population of nearly 9 million and comprises 109 LMAs. The average (median) population of a LMA is 81,200 (26,700). The average (median) area is 3,770 (2,318) sq km. The most densely populated LLM is Stockholm with 1,86 million inhabitants in an area of 8,036 sq km. Stockholm includes 30 municipalities, Goteborg includes 16, while 61 LMAs—the less populated ones—include only one municipality. However, individuals living in different municipalities within given LMA have closer interactions with their neighbors (e.g., Giannetti and Simonov, 2009). This, the decision to become entrepreneur depends on entrepreneurial activity in the municipality where an individual lives, whereas employment opportunities are determined on LMA level.

The *Specialization* variable is the ratio of the share of the main industry in local employment to the share of this same industry in national employment. This provides a measure of industry specialization at the labor market area level. In particular, it represents how specialized a locality is in its main industry relative to what one would expect if employment in this industry were scattered randomly across the

country. Marshall, Arrow and Romer predict that a higher specialization should increase the growth of those industries in a city. For example, Detroit LMA is specialized in motor vehicle and parts manufacturing, and employment in this industry is 6.3% of local employment, whereas nationwide it is only 0.6%. Correspondingly, Specialization for Detroit LMA will be 10.9. We also control for *Concentration* (share of top industry in LMA total employment). Given that it is correlated with *Specialization*, we used *Specialization* as our main variable of interest.

As a measure of *Diversity*, we create a measure based on the "variety" measure proposed by Glaeser et al. (1992). This measure is the share of the top next (after the main one) three industries in municipal employment. LMAs with more diversity in employment will have a higher value. The intuition behind this variable is that diversity is conducive to growth because "... the diversity of urban activities quite naturally encourages attempts to apply or adopt in one sector (or in one specific problem area) technological solutions adopted in another sector" (Bairoch, 1988, p. 336). Bringing together people from different walks of life fosters transmission of ideas. Finally, to control for economic conditions of the local economy, we also define a variable that proxies for the level of local *Unemployment* as measured by Labor Market Area.

In Table 1, we report some descriptive statistics. In particular, Panel A contains the general demographic characteristics, variables that describe entrepreneurial and economic environment. Panel B report the age distribution of the sample. We can see that by construction our sample is tilted towards younger population with only 3% of our sample being over 50. Representative individual for whom we have the data on IQ and social skills is the male in his 30-es, educated at two-year college, one out of four are married, one out of twenty five divorced.

### **3. Cognitive Ability, Social Skills, and Participation**

In this section, we study how skills affect the decision to be an entrepreneur and participate in the stock market. As we argued above, we expect cognitive ability to be more related to investing in the stock market, while social skills to translate in the decision to run an entrepreneurial activity.

### **A. Determinants of Being an Entrepreneur**

We start by focusing on the decision to become an entrepreneur. We estimate a linear probability model for the decision to be an entrepreneur. The dependent variable is our Entrepreneur Dummy defined before. The focus variables are our proxies of social skills and cognitive ability as well as their interaction with the degree of local entrepreneurship, their interaction with the degree of local entrepreneurship, and the interaction with the share of entrepreneurial income of the parental family. We also consider the triple interaction between the degree of local entrepreneurship and the share of entrepreneurial income of the parental family.

As we argued above, we control for a set of income, wealth and socio-economic variables that may have affected the choice to become/stay entrepreneur. In particular, we consider as control variables whether the locality is right-or left leaning or is more leaning towards family values. The intuition is that a right-leaning environment is more likely to foster an entrepreneurial spirit than a left-leaning one. Also, a more family-leaning environment is more likely to support a family-firm spirit. To control for the “attitude” of the parental family toward entrepreneurship and the financial markets, we include the *Share of Entrepreneurial (Capital) income in parental’ income*. To control for the local economy, we include the proxies of *Unemployment*, *Diversity*, *Specialization* and *Concentration* as defined above. To control for the income effect, we also include the *Percentile of Labor Income* and the *Percentile of Capital Income*.

For most of these variables, we consider their value at the time of the childhood – i.e., when the individual was between one and sixteen years old – and in the prior year. We also include a set of variables that control for family socio-economic characteristics that may have affected the choice of

individual, such as whether the parents married in childhood, whether the parents divorced during the childhood of the individual. We also include fixed effects for the specific year and the year of birth. We cluster the standard errors at both the labor market area and year  $t$ .

We report the results in Table 2. In Panel A, we report the base specification along with the interactions between *Cognitive Abilities* and *Social Skills*, level of entrepreneurship in the municipality (*Local Entrepreneurship* and *Local Entrepreneurship at  $t_0$* ), and *Share of Entrepreneurial Income in Parental' Income*. For the first specification, we also report the result of test of the difference between cognitive and social skills. In Panel B, we report the results of the interaction between local economic conditions (*Specialization* and *Unemployment*), and the set of *Cognitive Abilities* and *Social Skills*. In Panel B, we employ the same set of control variables as in Panel A, however, in the interest of brevity, we do not report the control variables.

The results show that both cognitive abilities and social skills do in general increase the probability of being an entrepreneur. However, the effect is way stronger for social skills. If we consider the base specification, we see that one standard deviation higher *Social Skills (Cognitive Ability)* is related to a 1.04% (0.60%) higher probability of being an entrepreneur. This represents 10.0% (5.8%) of unconditional probability of being an entrepreneur. The differences between cognitive abilities and social skills are statistically significant at all conventional levels. Also, both the local entrepreneurship and the degree of entrepreneurship of the family positively affect the probability of being an entrepreneur. The effect is robust across the different specifications and highly economically significant. One standard deviation higher *Local Entrepreneurship (Share of Entrepreneurial Income in Parental' Income)* is related to a 1.1% (1.84%) higher probability of being an entrepreneur. This represents 10.5% (17.5%) of unconditional probability of being an entrepreneur.

If we interact *Local Entrepreneurship* and the degree of entrepreneurship of the family (*Share of Entrepreneurial Income in Parental' Income*) with the *Social Skills* and *Cognitive Abilities*, we see that the effect of local entrepreneurship is amplified by social skills. One standard deviation higher *Local*

*Entrepreneurship* increases the probability of being an entrepreneur by 0.25% more in the case of individuals with social skills that are by one standard deviation above average.

In contrast, for local entrepreneurship at the time of the youth of the individual (*Local Entrepreneurship at t0*) negatively affects probability of becoming entrepreneur. The effect is even stronger for individuals with high social skills and cognitive ability. It is important to note, however, that this negative effect is reversed for individuals who grew up in high-entrepreneurship family residing in high-entrepreneurship locality. In this case, the effect of both cognitive abilities and social skills is strongly positive and significant.

Among the other variables, it is interesting to note that individuals whose parents went through divorce are significantly less likely to become an entrepreneur. It is consistent with the hypotheses that in broken household the transmission of relevant experience is diminished.

In Panel B, we control for the geographical characteristics related to the degree of knowledge spillover and local economic conditions. The results confirm that social skills do positively affect the probability of being an entrepreneur in all the specifications. The economic effect is consistent with the one reported in the previous specifications in Panel A. It is also interesting to note that *Social Skills* do magnify the impact of local unemployment. Indeed, local unemployment always reduces the probability of being an entrepreneur. One standard deviation higher local *Unemployment* reduces the probability of being an entrepreneur by 0.17% more in the case of individuals with social skills above average by one standard deviation. This suggests that social skills do amplify the effects related to the interaction with other individuals. If more people are affected by the inability to be economically successful – i.e., there is higher unemployment – this will negatively impact the incentive to be entrepreneur especially for the individual who have interact more – i.e., the ones with higher social skills.

Even more importantly, once we properly control for the degree of knowledge spillover and local economic conditions, *Cognitive Ability* is not related to the probability of being an entrepreneur. This suggests that the impact of *Cognitive Ability* on the probability of being an entrepreneur we documented

in Panel A, is likely due to a spurious correlation with local geographical characteristics. Overall, these findings provide evidence in favor of our working hypothesis that the decision to be an entrepreneur is related to the way individuals mimic their peers and that this is made possible by the availability of social skills. The next step is to look at whether these skills do also affect the incentives to invest in the stock market.

## **B. Determinants of Participating in the Stock Market**

We now analyze the decision to participate in the stock market. We estimate a linear probability model in which the dependent variable *Stock market participation* takes the value of one if the individual has invested in the financial market and zero otherwise. Also in this case, the focus variables are our proxies of social skills and cognitive ability as well as their interaction with the degree of local entrepreneurship during childhood, their interaction with the degree of local entrepreneurship the prior year, and the interaction with the share of entrepreneurial income of the parental family. We also consider the triple interaction between the degree of local entrepreneurship and the share of entrepreneurial income of the parental family.

The set of control variables is the same as in the previous specifications. We include the following fixed effects: *Year fixed effect*, *Year of birth fixed effect*, *Labor Market Area fixed effect*, Most representative Labor Market Area during childhood fixed effect (*LMA at  $t_0$  FE*). We cluster the standard errors at both the labor market area and year  $t$ .

We report the results in Table 3. In Panel A, we report the base specification along with interactions between *Cognitive Ability* and *Social Skills*, level of local entrepreneurship in the municipality (*Local Entrepreneurship*), and *Share of Entrepreneurial Income in Parental' Income*, while in Panel B, we report the results of interaction between local economic conditions (*Specialization* and *Unemployment*), and set of cognitive ability and social skills. As before, in Panel B, we employ the same set of control variables as in Panel A, however, in the interest of brevity, we do not report the control variables.

The results are the mirror image of the previous ones. Both cognitive ability and social skills do in general increase the probability of investing in the financial markets. However, the effect is now way stronger now for the cognitive ability. If we consider the base specification, we see that one standard deviation higher degree of *Cognitive Ability (Social Skills)* is related to a 1.6% (0.8%) higher probability of investing in the financial markets. This represents 8.3% (4.0%) of the unconditional mean.

Also, the degree of entrepreneurship of the family is positively related to the investment in the financial markets. The effect is robust across the different specifications and highly economically significant. One standard deviation higher entrepreneurship of the family (*Share of Entrepreneurial income in parental' income*) is related to a 0.47% higher probability being invested in the financial markets. It is interesting to note that this effect is incremental with respect to the already very significant effect of parental capital income. More specifically, one standard deviation of *Parents Percentile of capital income* increases the probability of owning financial assets from 19% to 21% . *Local entrepreneurship* is not directly related to stock market participation in general, while it reduces market participation in the case of high social skills.

In Panel B, we control for the geographical characteristics related to the degree of knowledge spillover and local economic conditions. It is clear that cognitive ability affects the decision to participate in the stock market through economic conditions. For individuals with higher cognitive ability higher contemporaneous employment (low *Unemployment*) and *Specialization* increases financial market participation. It is interesting to note that social skills have both a direct effect and an indirect one (via both contemporaneous unemployment and unemployment in childhood).

These findings provide further evidence in favor of our working hypothesis of a different role of social and cognitive ability, with the former stimulating entrepreneurial activity and the latter financial market participation

### **C. Income Choice**

The previous findings suggest that social skills induce individuals to enter entrepreneurial activity and lower the degree of stock market participation. To estimate the net effect of social skills of both choices jointly considered, we focus on the *Share of Capital Income in sum of capital and entrepreneurial income* – i.e., the net outcome of his entrepreneurial and financial choices – and relate it to the skills and ability. This approach also has an additional benefit. Till now, we have defined the choice to enter financial markets in terms of a binary choice – participate or not to participate. However, similarly to what we did to define the choice of entrepreneurial activity, we can also define the choice of financial market participation in terms of the fraction of financial income over sum of capital and entrepreneurial income at year  $t$ . This would capture the cases in which social skills may induce a structural change in the type of income the individuals earn, reducing the part due to financial activity.

We therefore regress the *Share of Capital Income in sum of capital and entrepreneurial income* of the individual on *Cognitive Ability* and *Social Skills* and a set of control variables, defined as above. We report the results in Table 4. As before, in Panel A, we report the base specification along with interactions between cognitive abilities and social skills, level of entrepreneurship in the municipality, and share of entrepreneurial income in parental total income, while in Panel B, we report the results of the interaction between local economic conditions (*Specialization* and *Unemployment*), and set of cognitive ability and social skills. We focus on the interaction with the most recent level of entrepreneurship as the only significant in the previous specifications.

We find that social skills are strongly negatively related to the percentage of financial income of the individual. The effect is robust across the different specifications and highly economically significant. If we consider the base specification, we see that one standard deviation higher degree of *Social Skills* translates into a 1.41% lower *Share of Capital Income in sum of capital and entrepreneurial income*. That represents about 8.6% increase with respect to unconditional mean. On the contrary, one standard deviation higher degree of *Cognitive Ability* translates into 1.3% increase of the *Share of Capital Income in sum of capital and entrepreneurial income* (an increase of 7.8% from the unconditional mean).



If we consider the interactions, we see that while *Local Entrepreneurship* reduces the percentage of financial income, this effect is lower in the presence of high social skills. This might reflect the fact that in highly entrepreneurial communities, entrepreneurs with high social skills are more successful and have more money to invest. However, for individuals from entrepreneurship background who reside in high entrepreneurship localities, social skills increases the share of entrepreneurship income. In contrast, cognitive abilities tend to increase share of financial income (with notable exception of interaction of local entrepreneurship and cognitive abilities; however, this can be due to success in entrepreneurship of high-cognitive ability people).

In Panel B, when we control for the geographical characteristics related to the degree of knowledge spillover and local economic conditions, we find that while cognitive abilities increase the percentage of financial income of the individual (and more so in diversified communities), social skills increase entrepreneurial income in high-specialization communities. The effect is robust across the different specifications and highly economically significant.

#### **4. Cognitive Ability, Social Skills, and Performance**

The previous findings suggest that social skills affect the choice of being an entrepreneur. This begs the question of what is the financial effect of social skills. Do social skills help to exploit social interaction to better forecast cash flows or are they related to lower risk aversion and higher willingness to take risk?

As we argue above, social skills by making interaction with other individuals easier and more effective may increase the self-confidence, effectively raising the incentive to take on more risk. To test this issue, we proceed in two steps. First, we focus on the financial performance of each individual. This is relatively simple to quantify than the performance of the entrepreneurial activity. Then, we consider the overall income performance.

##### **A. Financial Performance**

We start by focusing on financial performance. We consider two dimensions of performance: average returns and risk and we assess which type of skill affects them. We regress both the *Equally (Value) weighted Portfolio Returns* and *Standard Deviation of Equally (Value) weighted Portfolio Returns* on cognitive ability and social skills and the set of explanatory variables defined before.

We report the results in Table 5. In columns (1)-(5), the dependent variable is the portfolio return, while in columns (6)-(10), the dependent variable is the volatility of the portfolio. We consider both equally and value-weighted returns (even and odd specifications, respectively). The results suggest differential impacts of social skills and cognitive ability on both return and volatility. They show that the impact of social skills on returns is unambiguously negative, while cognitive ability seems to affect returns positively only in equally weighted portfolios.

The result for volatility shows that social skills positively affecting volatility for equally weighted portfolios, and cognitive ability negatively affects volatility for value-weighted portfolios. One standard deviation higher degree of *Social Skills* is related on average to 6.2% higher portfolio volatility and 1.3% lower return for equally weighted portfolio. As expected, social skills tend to incentivize risk taking and reduce performance, negatively affecting risk-return tradeoff. On the contrary, high cognitive ability positively affects risk-return tradeoff by either increasing returns (for equally weighted portfolios) or reducing volatility (for value-weighted portfolios). This finding is in line with previous findings showing that investors either have higher reliance on word-or-mouth or are overconfident on the information they acquired during the main activity or are subject to extrapolation bias that induces higher portfolio concentration in few assets and therefore higher risk.

## **B. Overall Performance**

We now focus on the effect of skills on the ability to generate revenue of the individual. We regress the (logarithm of the) different components of earnings on cognitive ability and social skills as well as set of other control variables. Then, we interact both social skills and cognitive ability with the *Local*

*Entrepreneurship* in the community and *Share of Entrepreneurial (Capital) income in parental' income*.

We estimate a panel specification with fixed effects for year, year of birth, labor market area at time t, and labor market area during childhood. The standard errors are clustered on labor market area level at time t.

We report the results in Table 6. In Panel A we look at  $\text{Log}(\text{Entrepreneurial Income})$ , while in Panel B we look at  $\text{Log}(\text{Capital Income})$ . We limit sample to individuals who are either entrepreneurs in our definition (have at least 25% of household income coming from entrepreneurial activity, or have at least 10% of their total income coming from capital income).

The results display a strong positive correlation between social skills and the income for entrepreneurs. The effect is statistically and economically relevant: one standard deviation higher *Social Skills* is related to 27.5% higher entrepreneurial income. *Cognitive Ability* increase entrepreneurial income as well, but to lesser degree. One standard deviation increase of cognitive ability increases entrepreneurial income by 20.4%. It is interesting to compare those with the results for capital income. We did not find any statistically significant dependence between capital income and cognitive ability. We also find that higher social skills reduce capital income. One standard deviation increase of social skills decreases capital income by 24.5%.

It is interesting to see that the effect of parental entrepreneurial experience (*Share of Entrepreneurial income in parental' income*) is negative. However, economic effect of it is rather small. One standard deviation of *Share of Entrepreneurial income in parental' income* decreases entrepreneurial income by just 3.9%. However, summary effect for cognitive and social skills is still positive. According to specification 2, the summary effect of *Social Skills (Cognitive Ability)* is 31% (25%). Parental entrepreneurial income does not affect capital income.

It is also interesting to note that the effect of local entrepreneurship is positive. One standard deviation of *Local Entrepreneurship* increases entrepreneurial income by 4.5% (11.4%). It is also interesting to note that higher local entrepreneurship (both contemporaneous and during childhood) makes

the effect of cognitive and social skills less pronounced. However, the effect is strongly positive for individuals with entrepreneurial family background residing in high-entrepreneurship communities.

Overall, these results show that social skills hurt capital income and increases entrepreneurial income. It is interesting to note that the effect of social skills on capital income is consistent with the effects of social skills on portfolio returns we reported in Table 5. This confirms our working hypothesis that social skills are among the main determinants of the entrepreneurial choice.

## **Conclusion**

We investigate the trade-off between being an entrepreneur and investing directly in the stock market. We argue that this choice is affected by the “intelligence” of the individual and, in particular, by his social skills. We rely on the literature showing that intelligence can be broken down into cognitive ability and social skills.

We argue that both social skills and cognitive ability, by reducing information gathering and processing costs and lowering risk aversion make it easier to both be an entrepreneur and successfully participate in the financial markets. However, the main driver of being an entrepreneur lies in his social skills. Indeed, social skills help along the most important dimension of entrepreneurship: the ability to continuously interact with other individuals. Being able to interact successfully with other individuals both increases the chances of success in the entrepreneurial venture and reduces the psychological burden of dealing with other individuals. We also argue that such social skills are most helpful in the presence of an entrepreneurship-friendly environment: if the area of residence thrives with entrepreneurial activity and/or if their parents were entrepreneurs themselves.

We test these hypotheses using a unique dataset that has available information on individual characteristics and choices for a representative sample of the Swedish population over four decades. This allows us to trace the same individuals since their childhood, knowing the wealth, income and socio-economic characteristics of their parental family as well as of the individuals themselves through the

years. For each of these individuals, we have information on their cognitive ability and social skills as tested by the Swedish authorities as they reached the age (18 year old) of compulsory military service.

We exploit cross-sectional variations in cognitive ability and social skills as well as their interaction with characteristics of the parental family and of the environment to investigate what drives the decision to be an entrepreneur. We first show that both cognitive and social skills do in general increase the probability of being an entrepreneur. However, the effect is way stronger for the social skills. We also provide evidence that the impact of social skills is magnified by the characteristics of the environment. Indeed, both the presence of local entrepreneurship in the area in which the individual operates and the degree of entrepreneurship of the parental family increases the probability of being an entrepreneur. This effect is amplified by the social skills of the individual. In contrast, we do not find consistent evidence that cognitive ability are related to the probability of being an entrepreneur.

Next, we document that both cognitive and social skills do in general increase the probability of investing in the financial markets. However, the effect is way stronger for the cognitive ability as they magnify the effects of local knowledge spillover and local economic conditions.

Overall, the net effect is that social skills tilt towards being an entrepreneur. Indeed, the percentage of financial income over total income of the individual and skills. While social skills reduce the percentage of financial income of the individual, cognitive ability increase it. This confirms our working hypothesis, suggesting a different role of social and cognitive ability, with the former stimulating entrepreneurial activity and the latter financial market participation.

What are the implications for the financial performance? We document a positive correlation between social skills and volatility and a negative one between them and returns. This is consistent with previous findings showing that investors either have higher reliance on word-or-mouth or are overconfident on the information they acquired during the main activity or are subject to extrapolation bias that induces higher portfolio concentration in few assets and therefore higher risk. Cognitive ability do not display a robust relationship to performance.

Our analysis is robust to controlling for a panoply of income, wealth and socio-economic variables that may have affected the choice to become/stay entrepreneur, defined for each individual both at his childhood and for his parental family and for when he is an adult. Also, we are able to control for the degree of specialization and diversity that lead to knowledge spillover that may affects the mimicking process through which individuals decide to become entrepreneurs or to invest in the capital market directly.

Our findings have important normative and policy implications, suggesting that the choice of being an entrepreneur, as opposed to being a shareholder, is related to the social skills of the individual. Heritage and environmental constraints magnify the impact of social skills.

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## Appendix

Variable	Definition
<i>Entrepreneurship</i>	Dummy that takes the value of one if more than 25% of household income in year $t$ is coming from entrepreneurial activity, and zero otherwise. Our definition of entrepreneur includes all household members who receive salaries or capital income from a business that they control and in which they work at least part-time. Data are from LINDA.
<i>Stock market participation</i>	Dummy that takes the value of one if household members has invested in year $t$ in the financial market and zero otherwise. We define as investment in the financial market the direct ownership of bonds, stocks, derivatives, or mutual funds in excess of 2,000 Swedish Kronor (SEK) for household. Data are from KURU.
<i>Share of Capital Income in sum of capital and entrepreneurial income</i>	Share of Capital Income in sum of capital and entrepreneurial income at year $t$ . Not defined if all income is coming from salaries. Ranges between 0 and 1.
<i>Equally (Value) weighted Portfolio Returns</i>	<p>Equally (Value) weighted portfolio returns. Calculated as average monthly equally (value) weighted returns for given year expressed as percent per month. We used holdings from KURU at the end of December and rebalancing portfolio in the end of June:</p> $eret_t = \frac{\sum_{i=1}^n ret_{i,t}}{n}, \quad wret_t = \frac{\sum_{i=1}^n p_{i,t-1} N_i ret_{i,t}}{\sum_{i=1}^n p_{i,t-1} N_i}$ <p>where <math>N_i</math> is number of shares of asset <math>i</math>, <math>n</math> is number of assets in the portfolio, <math>p_{i,t}</math> is price of asset <math>i</math> at time <math>t</math>, <math>ret_{i,t}</math> is return on asset <math>i</math> at time <math>t</math>.</p>
<i>Standard Deviation of Equally (Value) weighted Portfolio Returns</i>	Standard deviation of <i>Equally (Value) weighted Portfolio Returns</i> . Calculated using monthly returns for given year.
<i>Log (Entrepreneurial (Capital) Income)</i>	Logarithm of Entrepreneurial (Capital) income (in SEK) plus one. Data are from LINDA.
<i>Cognitive Ability</i>	Cognitive Ability measure. Measured by Swedish Draft Board at age 18. Test of cognitive skills consists of four different parts (synonyms; inductions; metal folding and technical comprehension). The results of these tests are then transformed into a discrete variable of general cognitive ability ranging from 1 to 9. This variable follows a Stantine scale that approximates a normal distribution. In our analysis, we further normalize this variable to a distribution with zero mean and unit variance.
<i>Social Skills</i>	Social Skills measure is based on interviews with a certified psychologist of the Draft Board at age 18. Tests are designed to reveal high ability to function in the military requires willingness to assume responsibility, independence, outgoing character, persistence, emotional stability, and initiative. The psychologists assign each conscript a score from 1 to 9, which follows Stantine distribution as the final test score for cognitive ability. As we did for cognitive ability, we normalize social ability variable to a distribution with zero mean and unit variance. The ensuing metric represents raw measure of social skills. Given that we will jointly assess the role of both cognitive ability and social skills, we also orthogonalize <i>Social Skills</i> with respect to the <i>Cognitive Ability</i> . We therefore regress the raw measure of social skills on the measure of cognitive skills. The residuals of this regression represent

our measure of social skills

*t0*

Timing convention referring to variables measured for parental household(s) when individuals were between 1 and 16 years old. Those observations are then averaged to obtain the variable in question (conditional on having at least two observations to be averaged).

*Married*

Dummy that is equal to one if adult individuals in household are married at the end of the previous year, and zero otherwise. Data are from LINDA.

*Parents Married*

Dummy that is equal to one if individual' parents were married when individuals were 1-16 years old and observations in LINDA are available, and zero otherwise. Data are from LINDA.

*Divorced*

Dummy that is equal to one if adult individual in household is divorced at the end of the previous, and zero otherwise. Data are from LINDA.

*Parents Divorced*

Dummy that is equal to one if individual' parents were divorced when individuals were 1-16 years old and observations in LINDA are available, and zero otherwise. Data are from LINDA.

*(Parents') Percentile of Labor (Capital) Income*

Place of household in distribution over labor (capital) income of all households in LINDA for given year. Data are from LINDA. Variable defined between 0 and 1. Larger number corresponds to higher income. For measure of Parents' Percentile of Labor (Capital) Income averages were calculated when individuals were 1-16 years old and observations in LINDA are available (minimum of two observations required for the mean to be calculated).

*Share of Entrepreneurial (Capital) income in parental' income.*

Average share of Entrepreneurial (Capital) income in parental' total income over years when individuals were 1-16 years old and observations in LINDA are available (minimum of 2 observations required for the mean to be calculated). Defined between 0 and 1.

*Local Entrepreneurship (at t0)*

Fraction of households with share of entrepreneurial income in excess of 25% of household income in a given municipality. Calculated using data from LINDA dataset. For measure of Local Entrepreneurship at childhood (at t0) averages were calculated when individuals were 1-16 years old and observations in LINDA are available (minimum of two observations required for the mean to be calculated). For measure at adulthood we use Local Entrepreneurship at the previous year. Defined between 0 and 1.

*Right-leaning municipality (at t0)*

Index between 0 and 1 of left-right tilt of municipality. It is calculated by using election results by municipality by political party and averaging it with time-dependent index of party position on "left-right" spectrum. The data on election results are from Statistics Sweden. The data on party positioning on left-right spectrum are from Gilljam and Holmberg (1993, 1995), Holmberg (2000) and Holmberg and Oscarsson (2004). The index determined at election year is then used from the year preceding election year till (next election year-2). After 2002 we used the results for 2002 elections. Measure of right-leaning locality in childhood (at t0) is calculated as average over years when individuals were 1-16 years old and observations on residence in LINDA are available (minimum of 2 observations required for the mean to be calculated).

*Family values leaning municipality (at t0)*

Index between 0 and 1 of family value tilt of municipality. It is calculated by using election results by municipality by political party and averaging it with index of party position on the issue of family values. The data on election results are from Statistics Sweden. The data on party positioning on family values spectrum are from

Gilljam and Holmberg (1993, 1995), Holmberg (2000) and Holmberg and Oscarsson (2004). The index determined at election year is then used from the year preceding election year till (next election year-2). After 2002 we used the results for 2002 elections. Measure of family values-leaning locality in childhood (at t0) is calculated as average over years when individuals were 1-16 years old and observations on residence in LINDA are available (minimum of 2 observations required for the mean to be calculated).

*Unemployment rate (at t0)* Unemployment rate at Labor Market Area (LMA). Measure of unemployment in childhood (at t0) is calculated as average over years when individuals were 1-16 years old and observations on residence in LINDA are available (minimum of 2 observations required for the mean to be calculated). For measure at adulthood we use unemployment in the end of previous year. Defined between 0 and 1. Data are from Statistics Sweden.

*Specialization (at t0)* Ratio of the share of the main industry in local LMA employment to the share of the same industry in national employment. Measure of specialization in childhood (at t0) is calculated as average over years when individuals were 1-16 years old and observations on residence in LINDA are available (minimum of 2 observations required for the mean to be calculated). For measure at adulthood we use specialization in the end of previous year. Data are from Statistics Sweden.

*Diversity (at t0)* Share of the top next (after the main one) three industries in LMA employment. Measure of diversity in childhood (at t0) is calculated as average over years when individuals were 1-16 years old and observations on residence in LINDA are available (minimum of 2 observations required for the mean to be calculated). For measure at adulthood we use diversity in the end of previous year. Defined between 0 and 1. Data are from Statistics Sweden.

*Concentration (at t0)* Share of LMA employment in the top industry. Measure of concentration in childhood (at t0) is calculated as average over years when individuals were 1-16 years old and observations on residence in LINDA are available (minimum of 2 observations required for the mean to be calculated). For measure at adulthood we use concentration in the end of previous year. Defined between 0 and 1. Data are from Statistics Sweden.

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## Table 1: Descriptive Statistics

In Panel A we report descriptive statistics of the variables of interest (outlined in Appendix). In Panel B we report age distribution of our sample.

### Panel A: Descriptive Statistics

	N	Mean	Median	Std Dev	IQR
<i>Entrepreneurship</i>	615687	0.103	0.000	0.304	0.000
<i>Stock Market Participation</i>	615687	0.190	0.000	0.393	0.000
<i>Share of Capital Income in sum of capital and entrepreneurial income</i>	95462	0.165	0.012	0.332	0.073
<i>Equally weighted portfolio returns</i>	138295	0.149	0.622	2.947	3.121
<i>Value weighted portfolio returns</i>	137531	0.228	0.214	1.634	1.691
<i>Std Dev of equally weighted portfolio returns</i>	140213	6.472	5.188	4.637	4.731
<i>Std Dev of value weighted portfolio returns</i>	140329	3.592	2.344	3.891	3.936
<i>Log(Entr. Income)</i>	69666	12.387	12.396	0.885	0.937
<i>Log(Capital. Income)</i>	11867	12.259	12.813	2.180	2.006
<i>Cognitive Ability</i>	615687	0.045	-0.046	0.983	1.541
<i>Social Skills</i>	615687	0.006	0.024	0.937	1.210
<i>Married</i>	615687	0.240	0.000	0.427	0.000
<i>Parent Married</i>	615687	0.812	1.000	0.370	0.000
<i>Divorced</i>	615687	0.040	0.000	0.196	0.000
<i>Parents Divorced</i>	615687	0.090	0.000	0.265	0.000
<i>Percentile in labor income</i>	615687	0.648	0.667	0.235	0.373
<i>Parents' percentile in labor income</i>	615687	0.632	0.672	0.240	0.384
<i>Percentile in capital income</i>	615687	0.609	0.644	0.266	0.436
<i>Parents' percentile in capital income</i>	615687	0.561	0.576	0.228	0.338
<i>Share of entrepreneurial income in parental income</i>	615687	0.077	0.000	0.222	0.000
<i>Share of capital income in parental income</i>	615687	0.141	0.002	0.211	0.371
<i>Local entrepreneurship</i>	615687	0.082	0.077	0.026	0.024
<i>Local entrepreneurship at t0</i>	615687	0.096	0.093	0.033	0.041
<i>Right-leaning municipality</i>	615687	0.502	0.501	0.042	0.030
<i>Right-leaning municipality at t0</i>	615687	0.526	0.524	0.051	0.050
<i>Family values leaning municipality</i>	615687	0.763	0.763	0.007	0.007
<i>Family values leaning municipality at t0</i>	615687	0.759	0.759	0.009	0.012
<i>Unemployment</i>	615687	0.070	0.069	0.021	0.026
<i>Unemployment at t0</i>	615687	0.042	0.035	0.038	0.074
<i>Specialization</i>	615687	1.264	1.173	0.225	0.223
<i>Specialization at t0</i>	615687	1.197	1.149	0.174	0.055
<i>Diversity</i>	615687	0.457	0.458	0.027	0.029
<i>Diversity at t0</i>	615687	0.455	0.451	0.026	0.014
<i>Concentration</i>	615687	0.227	0.213	0.039	0.038

**Panel B: Age Distribution of the sample**

<u>Age</u>	<u>Fraction of the sample</u>
<25	29%
25-29	16%
30-34	16%
35-39	15%
40-44	12%
45-49	10%
50+	3%

## **Table 2**

### **Entrepreneurship participation**

We report the linear probability model for the decision to be entrepreneur at time  $t$  on a set of explanatory variables defined in Appendix A and Table 1. The data are for 1999-2006. Standard errors are clustered on labor market area level at time  $t$ . All specifications has (unreported fixed effects for year, year of birth, labor market area at time  $t$ , and labor market area during childhood. In Panel A we report the base specification along with the specifications that have interactions between cognitive ability and social skills, level of entrepreneurship in the municipality, and share of entrepreneurial income in parental' total income. For the first specification, we also report the result of test of the difference between cognitive ability and social skills. Panel B reports the results of the interaction between local economic conditions (specialization and unemployment), and the set of cognitive ability and social skills. In Panel B, the control variables are the same as in Panel A, but have been omitted in the interest of brevity.

**Panel A: Entrepreneurship choice and local and parental influences.**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Social skills</i>	0.011*** (17.03)	0.011*** (16.71)	0.016*** (6.98)	0.017*** (6.55)	0.006*** (4.92)	0.005*** (3.20)	0.011*** (6.03)
<i>Cognitive Ability</i> <i>(x 100)</i>	0.614*** (9.85)	0.552*** (6.47)	1.220*** (4.69)	1.581*** (8.12)	0.328 (1.01)	0.345 (1.21)	0.012*** (3.80)
<i>Local entrepreneurship at t0</i>	-0.144*** (-2.71)	-0.144*** (-2.72)	-0.136** (-2.55)	-0.144*** (-2.70)	-0.143*** (-2.70)	-0.143*** (-2.71)	-0.141*** (-2.66)
--- * <i>Social skills</i>			-0.047** (-2.44)	-0.066*** (-2.87)			-0.086*** (-3.15)
--- * <i>Cognitive Ability</i>			-0.070** (-2.63)	-0.106*** (-5.64)			-0.120*** (-8.27)
<i>Share of entrepreneurial income</i> <i>in parental income</i>	0.083*** (13.58)	0.082*** (13.23)	0.082*** (13.35)	0.082*** (13.70)	0.082*** (13.19)	0.082*** (13.41)	0.083*** (14.00)
--- * <i>Social skills</i>		0.003 (0.47)	0.004 (0.67)	-0.018 (-1.49)	0.002 (0.38)	0.013 (1.05)	-0.006 (-0.49)
--- * --- * <i>Local entrepreneurship at t0</i>				0.194** (2.45)			0.223** (2.42)
--- * <i>Cognitive Ability</i>		0.008 (1.41)	0.010 (1.60)	-0.038** (-2.28)	0.008 (1.31)	0.006 (0.49)	-0.031 (-1.66)
--- * --- * <i>Local entrepreneurship at t0</i>				0.433*** (3.76)			0.449*** (3.97)
<i>Local entrepreneurship</i>	0.440*** (6.68)	0.438*** (6.67)	0.443*** (6.76)	0.441*** (6.67)	0.423*** (5.54)	0.425*** (5.58)	0.423*** (5.50)
--- * <i>Social skills</i>					0.061*** (5.16)	0.074*** (4.18)	0.099*** (4.67)
--- * --- * <i>Share of entrepreneurial income</i> <i>in parental income</i>						-0.124 (-1.02)	-0.170 (-1.39)
--- * <i>Cognitive Ability</i>					0.028 (0.73)	0.026 (0.79)	0.063** (2.24)
--- * --- * <i>Share of entrepreneurial income</i> <i>in parental income</i>						0.026 (0.29)	-0.093 (-1.12)
<i>Share of capital income</i> <i>in parental income</i>	-0.004 (-0.69)	-0.005 (-0.81)	-0.005 (-0.85)	-0.005 (-0.83)	-0.005 (-0.81)	-0.005 (-0.85)	-0.005 (-0.88)
<i>Right-leaning municipality at t0</i>	0.0002 (0.67)	0.0002 (0.63)	0.0003 (0.91)	0.0003 (0.77)	0.0002 (0.67)	0.0002 (0.68)	0.0003 (0.90)
<i>Right-leaning municipality</i>	-0.001*** (-3.08)	-0.001*** (-3.15)	-0.001*** (-3.25)	-0.001*** (-3.18)	-0.001*** (-3.32)	-0.001*** (-3.32)	-0.001*** (-3.46)
<i>Family values leaning municipality at t0</i>	0.003* (1.85)	0.003* (1.88)	0.003* (1.89)	0.003* (1.91)	0.003* (1.91)	0.003* (1.91)	0.003* (1.91)
<i>Family values leaning municipality</i>	0.002 (1.03)	0.002 (1.12)	0.002 (0.97)	0.002 (0.98)	0.002 (1.13)	0.002 (1.13)	0.002 (1.01)



<i>Unemployment at t0</i>	-0.105	-0.105	-0.111	-0.112	-0.107	-0.107	-0.115
	(-1.49)	(-1.50)	(-1.52)	(-1.57)	(-1.53)	(-1.53)	(-1.63)
<i>Unemployment</i>	-0.110	-0.109	-0.109	-0.109	-0.111	-0.111	-0.113
	(-1.12)	(-1.11)	(-1.11)	(-1.11)	(-1.12)	(-1.12)	(-1.14)
<i>Specialization at t0</i>	0.022	0.022	0.022	0.022	0.022	0.022	0.023
	(1.21)	(1.20)	(1.23)	(1.23)	(1.20)	(1.21)	(1.26)
<i>Specialization</i>	-0.0003	-0.0003	-0.0005	-0.0004	-0.0002	-0.0002	-0.0003
	(-0.13)	(-0.11)	(-0.23)	(-0.18)	(-0.11)	(-0.10)	(-0.18)
<i>Concentration at t0</i>	-0.142	-0.141	-0.146	-0.146	-0.144	-0.144	-0.153
	(-1.45)	(-1.44)	(-1.48)	(-1.47)	(-1.48)	(-1.49)	(-1.57)
<i>Concentration</i>	0.002	0.002	0.003	0.001	-0.000	-0.000	-0.002
	(0.02)	(0.02)	(0.03)	(0.01)	(-0.01)	(0.00)	(-0.02)
<i>Diversity at t0</i>	0.073	0.074	0.070	0.074	0.071	0.071	0.067
	(0.66)	(0.67)	(0.64)	(0.67)	(0.66)	(0.66)	(0.63)
<i>Diversity</i>	0.010	0.010	0.008	0.008	0.010	0.010	0.008
	(0.13)	(0.14)	(0.11)	(0.11)	(0.14)	(0.14)	(0.10)
<i>Parents' Percentile of labor income</i>	0.003	0.003	0.004	0.004	0.003	0.003	0.00351
	(0.35)	(0.47)	(0.48)	(0.52)	(0.46)	(0.45)	(0.49)
<i>Percentile of labor income</i>	-1.478***	-1.478***	-1.478***	-1.478***	-1.478***	-1.478***	-1.477***
	(-127.4)	(-127.3)	(-126.8)	(-127.0)	(-127.4)	(-127.4)	(-127.0)
<i>Parents Percentile of capital income</i>	-0.027**	-0.027**	-0.027**	-0.027**	-0.027**	-0.027**	-0.027**
	(-2.50)	(-2.50)	(-2.47)	(-2.54)	(-2.50)	(-2.49)	(-2.51)
<i>Percentile of capital income</i>	1.127***	1.126***	1.126***	1.126***	1.126***	1.126***	1.125***
	(117.2)	(116.9)	(115.9)	(116.0)	(117.3)	(117.4)	(116.5)
<i>Parents married</i>	0.000	-0.000	-0.000	-0.000	-0.000	-0.000	0.000
	(0.02)	(-0.12)	(-0.11)	(-0.02)	(-0.10)	(-0.09)	(0.03)
<i>Married</i>	0.051***	0.051***	0.050***	0.050***	0.051***	0.051***	0.050***
	(21.53)	(21.38)	(21.44)	(21.83)	(21.79)	(21.62)	(22.54)
<i>Parents divorced</i>	-0.011***	-0.011***	-0.011***	-0.011***	-0.011***	-0.011***	-0.011***
	(-6.43)	(-6.41)	(-6.45)	(-6.34)	(-6.42)	(-6.43)	(-6.35)
<i>Divorced</i>	0.018***	0.018***	0.018***	0.018***	0.018***	0.018***	0.018***
	(7.18)	(7.09)	(7.01)	(6.96)	(7.06)	(7.09)	6.92
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y
Observations	581367	581367	581367	581367	581367	581367	581367
R-squared	0.437	0.437	0.437	0.437	0.437	0.437	0.437
F-Stat, <i>Social Skills=Cognitive Ability</i>	21.23						
Prob > F	0.000						

**Panel B: Entrepreneurship and economic environment.**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Social skills</i>	0.016*** (3.19)	0.016*** (16.59)	0.017*** (3.72)	0.014*** (4.33)	0.017*** (12.46)	0.022*** (5.69)	0.021*** (4.33)
<i>Cognitive Ability (x100)</i>	0.008 (0.02)	0.777*** (6.91)	0.068 (0.15)	0.001 (0.12)	0.009*** (4.36)	0.003 (0.64)	0.000 (0.05)
<i>Share of capital income in parental income</i>	-0.004 (-0.69)	-0.004 (-0.70)	-0.004 (-0.70)	-0.004 (-0.69)	-0.004 (-0.69)	-0.004 (-0.69)	-0.004 (-0.70)
<i>Share of entrepreneurial income in parental income</i>	0.083*** (13.61)	0.083*** (13.59)	0.083*** (13.61)	0.083*** (13.60)	0.083*** (13.61)	0.083*** (13.63)	0.083*** (13.62)
<i>Local entrepreneurship</i>	0.440*** (6.68)	0.438*** (6.63)	0.438*** (6.62)	0.440*** (6.63)	0.435*** (6.64)	0.436*** (6.62)	0.436*** (6.62)
<i>Local entrepreneurship at t0</i>	-0.144*** (-2.71)	-0.146*** (-2.75)	-0.146*** (-2.75)	-0.144*** (-2.70)	-0.144*** (-2.73)	-0.144*** (-2.72)	-0.146*** (-2.76)
<i>Specialization</i>	-0.000 (-0.13)	-0.000 (-0.20)	-0.000 (-0.20)	-0.001 (-0.56)	-0.001 (-0.28)	-0.001 (-0.60)	-0.001 (-0.45)
--- * <i>Social skills</i>				-0.002 (-0.75)		-0.003 (-1.29)	-0.003 (-1.07)
--- * <i>Cognitive Ability</i>				0.004 (1.39)		0.004 (1.25)	0.002 (0.93)
<i>Unemployment</i>	-0.111 (-1.13)	-0.107 (-1.09)	-0.107 (-1.10)	-0.111 (-1.13)	-0.116 (-1.19)	-0.116 (-1.19)	-0.111 (-1.14)
--- * <i>Social skills</i>					-0.082*** (-3.78)	-0.088*** (-3.90)	-0.044* (-1.74)
--- * <i>Cognitive Ability</i>					-0.036 (-1.49)	-0.029 (-1.17)	-0.018 (-0.69)
<i>Specialization at t0</i>	0.023 (1.24)	0.021 (1.17)	0.021 (1.18)	0.023 (1.26)	0.022 (1.23)	0.024 (1.27)	0.022 (1.21)
--- * <i>Social skills</i>	-0.004 (-0.91)		-0.001 (-0.21)				0.001 (0.30)
--- * <i>Cognitive Ability</i>	0.005 (1.36)		0.006* (1.68)				0.005 (1.66)
<i>Unemployment at t0</i>	-0.104 (-1.46)	-0.110 (-1.55)	-0.110 (-1.54)	-0.103 (-1.46)	-0.107 (-1.52)	-0.105 (-1.48)	-0.109 (-1.53)
--- * <i>Social skills</i>		-0.099*** (-6.51)	-0.099*** (-6.30)				-0.094*** (-5.82)
--- * <i>Cognitive Ability</i>		-0.034** (-2.08)	-0.038** (-2.43)				-0.034** (-2.11)
<i>Other control variables</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y
Observations	581367	581367	581367	581367	581367	581367	581367
R-squared	0.437	0.437	0.437	0.437	0.437	0.437	0.437

### **Table 3**

#### **Stock market participation.**

We report the linear probability model for the decision to participate in the stock market on a set of explanatory variables defined in Appendix A and Table 1. The data are for 1999-2006. Standard errors are clustered on labor market area level at time  $t$ . All specifications has (unreported fixed effects for year, year of birth, labor market area at time  $t$ , and labor market area during childhood. In Panel A we report base specification along with interactions between cognitive ability and social skills, level of entrepreneurship in the municipality, and share of entrepreneurial income in parental' total income. For first specification we also report the result of test of the difference between cognitive ability and social skills. Panel B reports the results of interaction between local economic conditions (specialization and unemployment), and set of cognitive ability and social skills. In Panel B control variables are omitted for brevity.

**Panel A: Stock Market participation and local and parental influences**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Social skills</i>	0.008*** (4.19)	0.008*** (3.80)	0.000 (0.01)	-0.003 (-0.79)	0.015*** (3.53)	0.017*** (4.13)	0.006 (1.34)
<i>Cognitive Ability</i>	0.016*** (12.61)	0.015*** (10.16)	0.012** (2.43)	0.009* (1.70)	0.017*** (5.10)	0.017*** (4.11)	0.011** (2.17)
<i>Local entrepreneurship at t0</i>	-0.038 (-0.35)	-0.039 (-0.36)	-0.046 (-0.42)	-0.036 (-0.33)	-0.041 (-0.37)	-0.040 (-0.37)	-0.039 (-0.36)
--- * <i>Social skills</i>			0.082* (1.97)	0.119** (2.57)			0.150*** (3.01)
--- * <i>Cognitive Ability</i>			0.0279 (0.52)	0.0655 (1.22)			0.0756 (1.33)
<i>Share of entrepreneurial income in parental income</i>	0.021*** (3.01)	0.020*** (2.97)	0.019*** (2.95)	0.020*** (2.93)	0.020*** (2.99)	0.019*** (2.94)	0.019*** (2.81)
--- * <i>Social skills</i>		0.007 (1.22)	0.005 (0.83)	0.051* (1.84)	0.008 (1.34)	-0.007 (-0.41)	0.032 (1.02)
--- * --- * <i>Local entrepreneurship at t0</i>				-0.408 (-1.57)			-0.455* (-1.74)
---- * <i>Cognitive Ability</i>		0.009 (1.60)	0.009 (1.48)	0.057*** (2.67)	0.010 (1.64)	0.013 (0.69)	0.052* (1.93)
--- * --- * <i>Local entrepreneurship at t0</i>				-0.437** (-2.28)			-0.450** (-2.34)
<i>Local entrepreneurship</i>	0.073 (1.04)	0.071 (1.02)	0.068 (0.96)	0.069 (0.98)	0.091 (1.26)	0.089 (1.23)	0.090 (1.22)
--- * <i>Social skills</i>					-0.091** (-2.64)	-0.109*** (-3.31)	-0.154*** (-3.87)
--- * --- * <i>Share of entr. Income in parental income</i>						0.176 (1.10)	0.280** (2.17)
---- * <i>Cognitive Ability</i>					-0.028 (-0.86)	-0.025 (-0.61)	-0.046 (-0.96)
--- * --- * <i>Share of entr. Income in parental income</i>						-0.041 (-0.23)	0.073 (0.42)
<i>Share of capital income in parental income</i>	0.003 (0.78)	0.002 (0.51)	0.002 (0.55)	0.002 (0.50)	0.002 (0.51)	0.002 (0.55)	0.002 (0.58)
<i>Right-leaning municipality at t0</i>	-0.000 (-0.64)	-0.000 (-0.66)	-0.000 (-0.82)	-0.000 (-0.69)	-0.000 (-0.70)	-0.000 (-0.71)	-0.000 (-0.80)
<i>Right-leaning municipality</i>	-0.001 (-1.54)	-0.001 (-1.57)	-0.001 (-1.53)	-0.001 (-1.59)	-0.001 (-1.48)	-0.001 (-1.48)	-0.001 (-1.47)
<i>Family values leaning municipality at t0</i>	0.007 (1.34)	0.007 (1.36)	0.007 (1.37)	0.007 (1.36)	0.007 (1.36)	0.007 (1.36)	0.007 (1.36)
<i>Family values leaning municipality</i>	0.007** (1.99)	0.007** (2.03)	0.007** (2.02)	0.007** (2.04)	0.007** (2.06)	0.007** (2.06)	0.007** (2.07)
<i>Unemployment at t0</i>	0.199 (1.05)	0.200 (1.06)	0.202 (1.08)	0.203 (1.09)	0.201 (1.06)	0.201 (1.07)	0.206 (1.11)
<i>Unemployment</i>	-0.275 (-1.36)	-0.273 (-1.35)	-0.272 (-1.34)	-0.272 (-1.35)	-0.270 (-1.33)	-0.270 (-1.33)	-0.269 (-1.32)
<i>Specialization at t0</i>	0.007 (0.16)	0.007 (0.15)	0.007 (0.15)	0.007 (0.15)	0.007 (0.15)	0.007 (0.15)	0.006 (0.14)
<i>Specialization</i>	0.008*** (2.75)	0.008*** (2.76)	0.008*** (2.83)	0.008*** (2.78)	0.008*** (2.77)	0.008*** (2.77)	0.008*** (2.80)
<i>Concentration at t0</i>	0.067 (0.22)	0.069 (0.22)	0.071 (0.23)	0.072 (0.23)	0.073 (0.24)	0.074 (0.24)	0.080 (0.26)
<i>Concentration</i>	0.144 (0.96)	0.144 (0.96)	0.144 (0.96)	0.146 (0.97)	0.147 (0.97)	0.147 (0.97)	0.149 (0.99)
<i>Diversity at t0</i>	-0.133 (-0.63)	-0.131 (-0.62)	-0.127 (-0.60)	-0.133 (-0.63)	-0.128 (-0.60)	-0.127 (-0.60)	-0.125 (-0.59)
<i>Diversity</i>	0.205* (1.99)	0.205** (2.00)	0.207** (2.02)	0.208** (2.02)	0.205* (1.98)	0.206* (1.99)	0.209** (2.02)
<i>Parents' Percentile of labor income</i>	-0.007 (-0.84)	-0.006 (-0.69)	-0.006 (-0.71)	-0.006 (-0.75)	-0.006 (-0.68)	-0.005 (-0.67)	-0.006 (-0.72)
<i>Percentile of labor income</i>	-0.0114	-0.0111	-0.0113	-0.0115	-0.0113	-0.0114	-0.0121

	(-1.19)	(-1.17)	(-1.20)	(-1.23)	(-1.20)	(-1.20)	(-1.29)
<i>Parents Percentile of capital income</i>	0.079***	0.079***	0.079***	0.079***	0.079***	0.079***	0.079***
	(9.72)	(9.64)	(9.62)	(9.72)	(9.65)	(9.64)	(9.71)
<i>Percentile of capital income</i>	0.035***	0.035***	0.036***	0.036***	0.036***	0.036***	0.037***
	(4.43)	(4.40)	(4.49)	(4.51)	(4.43)	(4.43)	(4.59)
<i>Parents married</i>	-0.002	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003
	(-0.40)	(-0.45)	(-0.45)	(-0.48)	(-0.45)	(-0.46)	(-0.50)
<i>Married</i>	-0.020***	-0.020***	-0.020***	-0.020***	-0.020***	-0.020***	-0.020***
	(-6.29)	(-6.32)	(-6.21)	(-6.14)	(-6.29)	(-6.31)	(-6.07)
<i>Parents divorced</i>	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002
	(-0.34)	(-0.34)	(-0.34)	(-0.36)	(-0.34)	(-0.34)	(-0.36)
<i>Divorced</i>	-0.044***	-0.044***	-0.044***	-0.044***	-0.044***	-0.044***	-0.044***
	(-6.99)	(-7.00)	(-6.95)	(-6.96)	(-6.97)	(-6.98)	(-6.92)
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y
Observations	581367	581367	581367	581367	581367	581367	581367
R-squared	0.056	0.056	0.056	0.056	0.056	0.056	0.057
F-Stat, <i>Social Skills=Cognitive Ability</i>	11.54						
Prob > F	0.001						

**Panel B: Stock Market participation and economic environment.**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Social skills</i>	0.018** (2.51)	0.002 (0.83)	0.016** (2.17)	0.020** (2.37)	0.012* (1.71)	0.026* (1.84)	0.029** (2.62)
<i>Cognitive Ability</i>	0.001 (0.13)	0.009*** (3.87)	-0.000 (-0.10)	-0.000 (-0.07)	0.026*** (7.61)	0.010 (1.56)	0.006 (0.70)
<i>Share of capital income in parental income</i>	0.003 (0.79)	0.003 (0.85)	0.003 (0.85)	0.003 (0.78)	0.003 (0.78)	0.003 (0.78)	0.003 (0.85)
<i>Share of entrepreneurial income in parental income</i>	0.021*** (3.01)	0.021*** (3.00)	0.021*** (3.00)	0.021*** (3.03)	0.020*** (2.97)	0.021*** (2.99)	0.020*** (2.96)
<i>Local entrepreneurship</i>	0.073 (1.05)	0.076 (1.08)	0.076 (1.08)	0.073 (1.05)	0.064 (0.89)	0.064 (0.91)	0.062 (0.87)
<i>Local entrepreneurship at t0</i>	-0.038 (-0.35)	-0.032 (-0.29)	-0.032 (-0.29)	-0.038 (-0.34)	-0.039 (-0.36)	-0.038 (-0.35)	-0.032 (-0.29)
<i>Specialization</i>	0.008*** (2.75)	0.008*** (2.86)	0.008*** (2.87)	0.006* (1.82)	0.007** (2.56)	0.005* (1.85)	0.006* (1.97)
--- * <i>Social skills</i>				-0.009 (-1.58)		-0.010 (-1.60)	-0.008 (-1.06)
--- * <i>Cognitive Ability</i>				0.013*** (3.47)		0.011*** (2.94)	0.009** (2.12)
<i>Unemployment</i>	-0.276 (-1.36)	-0.287 (-1.42)	-0.288 (-1.42)	-0.277 (-1.37)	-0.290 (-1.45)	-0.290 (-1.45)	-0.314 (-1.57)
--- * <i>Social skills</i>					-0.053 (-0.70)	-0.070 (-0.90)	-0.141* (-1.92)
--- * <i>Cognitive Ability</i>					-0.141*** (-3.07)	-0.122** (-2.51)	-0.205*** (-3.98)
<i>Specialization at t0</i>	0.009 (0.19)	0.009 (0.20)	0.011 (0.24)	0.011 (0.25)	0.009 (0.20)	0.012 (0.27)	0.015 (0.34)
--- * <i>Social skills</i>	-0.008 (-1.26)		-0.012* (-1.72)				-0.007 (-0.70)
--- * <i>Cognitive Ability</i>	0.012 (1.59)		0.008 (1.02)				0.003 (0.41)
<i>Unemployment at t0</i>	0.203 (1.07)	0.212 (1.14)	0.217 (1.17)	0.206 (1.10)	0.199 (1.04)	0.205 (1.09)	0.220 (1.19)
--- * <i>Social skills</i>		0.153*** (3.96)	0.149*** (3.84)				0.180*** (4.69)
--- * <i>Cognitive Ability</i>		0.140*** (4.14)	0.147*** (4.19)				0.162*** (4.40)
<i>Other control variables</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y
Observations	581367	581367	581367	581367	581367	581367	581367
R-squared	0.056	0.057	0.057	0.056	0.056	0.056	0.057

## **Table 4**

### **Financial Income vs. Entrepreneurial Income.**

We report the linear regression model and tobit model for the ratio of capital income to the sum of capital and entrepreneurial incomes on a set of explanatory variables defined in Appendix A and Table 1. The dependent variable is not defined if all income is coming from salaries. Even specifications report the results for ols model, whereas even specifications report the results for tobit model. The data are for 1999-2006. Standard errors are clustered on labor market area level at time  $t$ . All specifications has (unreported) fixed effects for year, year of birth, labor market area at time  $t$ , and labor market area during childhood. In Panel A we report base specification along with interactions between cognitive ability and social skills, level of entrepreneurship in the municipality, and share of entrepreneurial income in parental' total income. We also include the estimate of tobit regression error  $\Sigma$ . For specifications (1) and (2) we also report the result of test of the difference between cognitive ability and social skills. Panel B reports the results of interaction between local economic conditions (specialization and unemployment), and set of cognitive ability and social skills. In Panel B control variables are omitted for brevity.

**Panel A: Choice of Financial vs. Entrepreneurial Income and local and parental influences**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Social skills</i>	-0.015*** (-6.46)	-0.015*** (-5.71)	-0.025*** (-5.42)	-0.028*** (-5.03)	-0.030*** (-5.85)	-0.036*** (-5.59)	-0.042*** (-5.54)	-0.051*** (-5.80)
<i>Cognitive Ability</i>	0.006*** (3.30)	0.013*** (5.42)	0.016*** (2.74)	0.026*** (3.45)	0.015** (2.49)	0.024*** (3.09)	-0.012 (-1.13)	-0.007 (-0.55)
<i>Local entrepreneurship at t0</i>	0.158** (2.31)	0.244*** (2.93)	0.158** (2.29)	0.243*** (2.87)	0.156** (2.27)	0.241*** (2.84)	0.141* (1.89)	0.227** (2.50)
--- * <i>Social skills</i>							0.137* (1.86)	0.176** (2.16)
--- * <i>Cognitive Ability</i>							0.358*** (3.19)	0.407*** (3.34)
<i>Share of entr. income in parental income</i>	-0.004 (-0.31)	0.001 (0.05)	-0.002 (-0.19)	0.003 (0.23)	-0.002 (-0.13)	0.004 (0.31)	-0.005 (-0.47)	-0.001 (-0.06)
--- * <i>Social skills</i>			0.005 (0.57)	0.005 (0.54)	0.035*** (2.73)	0.044*** (2.99)	0.081*** (4.24)	0.106*** (4.37)
--- * --- * <i>Local entrepreneurship at t0</i>							-0.460** (-2.30)	-0.617** (-2.48)
----- * <i>Cognitive Ability</i>			-0.019*** (-2.67)	-0.025*** (-3.23)	-0.009 (-0.72)	-0.013 (-0.88)	0.066*** (3.96)	0.078*** (4.31)
--- * --- * <i>Local entrepreneurship at t0</i>							-0.908*** (-6.91)	-1.094*** (-6.99)
<i>Local entrepreneurship</i>	-0.346** (-2.33)	-0.358** (-2.12)	-0.342** (-2.06)	-0.354* (-1.85)	-0.340** (-2.02)	-0.351* (-1.82)	-0.341** (-2.01)	-0.354* (-1.82)
--- * <i>Social skills</i>			0.107*** (2.65)	0.143*** (3.02)	0.170*** (3.23)	0.225*** (3.67)	0.154*** (3.02)	0.206*** (3.39)
--- * --- * <i>Share of entr. income in parental income</i>					-0.333*** (-3.03)	-0.431*** (-3.31)	-0.301*** (-3.12)	-0.385*** (-3.41)
----- * <i>Cognitive Ability</i>			-0.081 (-1.32)	-0.106 (-1.42)	-0.059 (-0.98)	-0.078 (-1.01)	-0.150*** (-2.78)	-0.179*** (-2.71)
--- * --- * <i>Share of entr. income in parental income</i>					-0.108 (-0.86)	-0.139 (-0.97)	0.116 (0.87)	0.132 (0.84)
<i>Share of capital income in parental income</i>	0.034* (1.67)	0.040* (1.705)	0.034 (1.49)	0.039 (1.51)	0.032 (1.42)	0.037 (1.44)	0.029 (1.36)	0.034 (1.36)
<i>Right-leaning municipality at t0</i>	0.001* (1.87)	0.002* (1.77)	0.001* (1.89)	0.002* (1.82)	0.001* (1.97)	0.002* (1.91)	0.001 (1.65)	0.002* (1.65)
<i>Right-leaning municipality</i>	0.005*** (5.52)	0.004*** (3.93)	0.005*** (5.91)	0.004*** (4.15)	0.005*** (5.86)	0.004*** (4.11)	0.005*** (5.725)	0.004*** (4.154)
<i>Family values leaning municipality at t0</i>	-0.013 (-1.49)	-0.015 (-1.34)	-0.013 (-1.49)	-0.015 (-1.34)	-0.013 (-1.49)	-0.015 (-1.34)	-0.013 (-1.52)	-0.015 (-1.37)
<i>Family values leaning municipality</i>	-0.015** (-2.17)	-0.012 (-1.42)	-0.015** (-2.22)	-0.012 (-1.47)	-0.015** (-2.21)	-0.012 (-1.46)	-0.015** (-2.21)	-0.012 (-1.45)
<i>Unemployment at t0</i>	-0.203 (-0.83)	-0.074 (-0.24)	-0.201 (-0.82)	-0.072 (-0.23)	-0.202 (-0.83)	-0.074 (-0.24)	-0.162 (-0.66)	-0.025 (-0.08)
<i>Unemployment</i>	-0.286 (-0.63)	-0.230 (-0.40)	-0.298 (-0.64)	-0.246 (-0.42)	-0.307 (-0.66)	-0.259 (-0.46)	-0.320 (-0.69)	-0.277 (-0.47)
<i>Specialization at t0</i>	0.080 (0.73)	0.075 (0.54)	0.080 (0.73)	0.076 (0.54)	0.080 (0.74)	0.075 (0.54)	0.076 (0.70)	0.070 (0.51)
<i>Specialization</i>	0.015 (1.47)	0.036*** (3.19)	0.015 (1.49)	0.037*** (3.22)	0.015 (1.49)	0.036*** (3.23)	0.016 (1.49)	0.037*** (3.19)
<i>Diversity at t0</i>	-1.109*** (-3.91)	-1.285*** (-3.75)	-1.126*** (-4.01)	-1.308*** (-3.83)	-1.126*** (-4.03)	-1.308*** (-3.85)	-1.097*** (-3.88)	-1.275*** (-3.72)
<i>Diversity</i>	0.257 (0.94)	0.388 (1.15)	0.256 (0.93)	0.387 (1.14)	0.253 (0.91)	0.382 (1.12)	0.254 (0.91)	0.383 (1.12)
<i>Concentration at t0</i>	-0.92* (-1.72)	-0.979 (-1.47)	-0.932* (-1.74)	-0.988 (-1.49)	-0.928* (-1.74)	-0.983 (-1.48)	-0.879* (-1.69)	-0.925 (-1.44)
<i>Concentration</i>	0.059 (0.15)	0.110 (0.22)	0.051 (0.12)	0.101 (0.20)	0.044 (0.11)	0.092 (0.18)	0.037 (0.089)	0.083 (0.16)
<i>Parents' Percentile of labor income</i>	0.251*** (18.55)	0.303*** (19.38)	0.251*** (18.53)	0.303*** (19.37)	0.251*** (18.50)	0.303*** (19.33)	0.250*** (18.48)	0.301*** (19.34)
<i>Percentile of labor income</i>	-0.049***	-0.064***	-0.052***	-0.068***	-0.053***	-0.069***	-0.055***	-0.072***



	(-3.27)	(-3.65)	(-3.39)	(-3.78)	(-3.47)	(-3.88)	(-3.60)	(-4.07)
<i>Parents Percentile of capital income</i>	0.300***	0.375***	0.300***	0.375***	0.301***	0.376***	0.302***	0.378***
	(24.58)	(25.58)	(23.99)	(25.15)	(24.31)	(25.47)	(25.09)	(26.31)
<i>Percentile of capital income</i>	-0.335***	-0.359***	-0.334***	-0.358***	-0.334***	-0.358***	-0.331***	-0.355***
	(-27.80)	(-22.37)	(-27.28)	(-21.92)	(-27.29)	(-21.97)	(-26.46)	(-21.61)
<i>Married</i>	-0.120***	-0.137***	-0.120***	-0.137***	-0.120***	-0.137***	-0.119***	-0.136***
	(-20.15)	(-18.94)	(-20.23)	(-19.04)	(-20.44)	(-19.22)	(-21.05)	(-19.82)
<i>Parents married</i>	-0.015**	-0.014	-0.015*	-0.013	-0.0148*	-0.0131	-0.0148*	-0.0132
	(-2.04)	(-1.358)	(-1.97)	(-1.29)	(-1.97)	(-1.29)	(-1.97)	(-1.31)
<i>Divorced</i>	-0.086***	-0.119***	-0.086***	-0.118***	-0.086***	-0.118***	-0.085***	-0.118***
	(-9.66)	(-10.08)	(-9.62)	(-10.02)	(-9.58)	(-10.01)	(-9.52)	(-9.96)
<i>Parents divorced</i>	0.012	0.014	0.012	0.014	0.012	0.014	0.012	0.014
	(0.98)	(0.873)	(0.94)	(0.84)	(0.96)	(0.84)	(0.95)	(0.84)
<i>Sigma</i>		0.360***		0.360***		0.360***		0.359***
		(54.86)		(54.86)		(54.88)		(55.27)
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y	Y
Observations	87540	87540	87540	87540	87540	87540	87540	87540
R-squared	0.139		0.140		0.140		0.141	
F: <i>Social Skills=Cognitive Ability</i>	59.46	79.82						
Prob > F	0.000	0.000						
Pseudo R-squared		0.111		0.112		0.112		0.113

**Panel B: Choice of Financial vs. Entrepreneurial Income and Economic Environment**

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Social skills</i>	0.006 (0.72)	0.015 (1.42)	-0.017*** (-3.32)	-0.019*** (-3.08)	0.006 (0.54)	0.015 (0.98)
<i>Cognitive Ability</i>	0.046*** (4.49)	0.066*** (5.19)	-0.009 (-1.57)	-0.004 (-0.56)	0.031*** (2.70)	0.050*** (3.51)
<i>Share of capital income in parental income</i>	0.034 (1.66)	0.039* (1.70)	0.034* (1.67)	0.040* (1.71)	0.034* (1.67)	0.040* (1.71)
<i>Share of entrepreneurial income in parental income</i>	-0.005 (-0.33)	0.000 (0.032)	-0.004 (-0.29)	0.001 (0.068)	-0.004 (-0.31)	0.001 (0.04)
<i>Local entrepreneurship</i>	-0.340** (-2.26)	-0.349** (-2.03)	-0.331** (-2.29)	-0.342** (-2.08)	-0.330** (-2.29)	-0.340** (-2.04)
<i>Local entrepreneurship at t0</i>	0.162** (2.37)	0.249*** (3.01)	0.158** (2.32)	0.244*** (2.93)	0.161** (2.38)	0.248*** (2.99)
<i>Specialization</i>	0.028*** (2.78)	0.054*** (5.01)	0.016 (1.53)	0.037*** (3.24)	0.027*** (2.68)	0.053*** (4.92)
--- * <i>Social skills</i>	-0.017** (-2.47)	-0.024*** (-2.99)			-0.017** (-2.36)	-0.024*** (-2.77)
--- * <i>Cognitive Ability</i>	-0.031*** (-4.02)	-0.041*** (-4.25)			-0.029*** (-3.62)	-0.038*** (-4.02)
<i>Unemployment</i>	-0.269 (-0.59)	-0.212 (-0.37)	-0.290 (-0.63)	-0.236 (-0.41)	-0.271 (-0.59)	-0.215 (-0.38)
--- * <i>Social skills</i>			0.032 (0.42)	0.0486 (0.52)	-0.001 (-0.02)	0.000 (0.01)
--- * <i>Cognitive Ability</i>			0.227** (2.52)	0.246** (2.31)	0.170* (1.95)	0.168 (1.59)
<i>Specialization at t0</i>	0.083 (0.76)	0.080 (0.57)	0.079 (0.73)	0.0741 (0.53)	0.082 (0.76)	0.079 (0.57)
<i>Unemployment at t0</i>	-0.183 (-0.75)	-0.043 (-0.14)	-0.200 (-0.83)	-0.071 (-0.23)	-0.182 (-0.74)	-0.043 (-0.14)
<i>Other control variables</i>	Y	Y	Y	Y	Y	Y
<i>Year FE</i>	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y
Observations	87540	87540	87540	87540	87540	87540
R-squared	0.140		0.140		0.140	
Pseudo R-squared		0.112		0.112		0.112

## **Table 5**

### **Equity portfolio return and volatility.**

We report the linear regression model for the equity portfolio returns (specifications 1-6) and equity portfolio returns' standard deviations (specifications 7-12) on a set of explanatory variables defined in Appendix A and Table 1. We report the results for both equally and value-weighted returns (even and odd specifications, correspondingly). The data are for 1999-2006. Dependent variables are winsorized at 1% and 99%. Standard errors are clustered on labor market area level at time  $t$ . All specifications has (unreported) fixed effects for year, year of birth, labor market area at time  $t$ , and labor market area during childhood. We report base specification along with interactions between cognitive ability and social skills, level of entrepreneurship in the municipality, and share of entrepreneurial income in parental' total income. For specifications (1), (2), (7), and (8) we also report the result of test of the difference between cognitive ability and social skills.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>Social skills</i>	-0.013** (-2.56)	-0.010** (-2.53)	-0.012* (-1.92)	-0.009** (-2.17)	-0.06*** (-2.70)	0.004 (0.35)	0.062*** (3.60)	0.007 (0.40)	0.061*** (3.17)	0.012 (0.56)	0.040 (0.72)	-0.008 (-0.16)
<i>Cognitive Ability</i>	0.011* (1.88)	0.000 (0.10)	0.012* (1.82)	0.003 (0.58)	-0.023 (-0.83)	0.052*** (4.38)	0.034 (1.41)	-0.045** (-2.24)	0.017 (0.71)	-0.054*** (-2.79)	0.129* (1.98)	0.047 (0.73)
<i>Local entrepreneurship at t0</i>	0.108 (0.26)	-0.023 (-0.11)	0.106 (0.25)	-0.024 (-0.11)	0.119 (0.28)	-0.034 (-0.16)	1.408 (1.27)	0.494 (0.55)	1.412 (1.28)	0.488 (0.54)	1.403 (1.27)	0.475 (0.53)
<i>Share of entrepreneurial income in parental income</i>	-0.042 (-1.08)	-0.037 (-1.38)	-0.036 (-0.92)	-0.029 (-1.08)	-0.036 (-0.93)	-0.029 (-0.93)	0.324*** (3.37)	-0.005 (-0.05)	0.266*** (2.66)	-0.024 (-0.23)	0.268*** (2.67)	-0.023 (-0.22)
--- * <i>Social skills</i>			-0.018 (-0.47)	-0.005 (-0.22)	-0.023 (-0.64)	-0.003 (-0.12)			0.018 (0.20)	-0.058 (-0.64)	0.0154 (0.17)	-0.061 (-0.67)
----- * <i>Cognitive Ability</i>			-0.012 (-0.50)	-0.027* (-1.98)	-0.016 (-0.66)	-0.022 (-1.66)			0.215 (1.43)	0.118 (0.91)	0.225 (1.53)	0.127 (1.00)
<i>Local entrepreneurship</i>	-0.961** (-2.18)	-0.245 (-1.07)	-0.960** (-2.19)	-0.242 (-1.07)	-1.201*** (-2.66)	-2.181 (-0.08)	0.046 (0.04)	0.880 (0.90)	0.020 (0.02)	0.865 (0.88)	0.378 (0.36)	1.189 (1.22)
--- * <i>Social skills</i>					0.534** (2.26)	-0.168 (-1.39)					0.247 (0.45)	0.240 (0.41)
----- * <i>Cognitive Ability</i>					0.438 (1.30)	-0.615*** (-5.18)					-1.378** (-2.38)	-1.253** (-2.08)
<i>Share of capital income in parental income</i>	-0.019 (-0.44)	-0.034 (-1.11)	-0.019 (-0.44)	-0.035 (-1.13)	-0.020 (-0.46)	-0.035 (-1.12)	0.274** (2.60)	0.228*** (3.10)	0.282** (2.63)	0.234*** (3.16)	0.281** (2.61)	0.233*** (3.12)
<i>Right-leaning municipality</i>	-0.001 (-0.16)	-0.001 (-0.55)	-0.001 (-0.14)	-0.001 (-0.51)	-0.001 (-0.33)	-0.000 (-0.17)	0.048*** (6.26)	-0.002 (-0.22)	0.047*** (6.25)	-0.003 (-0.24)	0.049*** (6.44)	-0.001 (-0.13)
<i>Right-leaning municipality at t0</i>	-0.005 (-1.64)	0.005 (0.03)	-0.005 (-1.64)	0.000 (0.02)	-0.005 (-1.59)	-0.000 (-0.03)	0.010 (1.08)	0.003 (0.48)	0.010 (1.09)	0.004 (0.50)	0.010 (1.08)	0.003 (0.49)
<i>Family values leaning municipality</i>	0.062*** (3.24)	0.003 (0.58)	0.061*** (3.22)	0.003 (0.50)	0.062*** (3.36)	0.002 (0.45)	-0.207*** (-9.40)	0.023 (0.62)	-0.204*** (-9.55)	0.025 (0.69)	-0.205*** (-9.56)	0.024 (0.66)
<i>Family values leaning municipality at t0</i>	0.020 (1.34)	0.015 (1.26)	0.020 (1.33)	0.015 (1.24)	0.020 (1.32)	0.015 (1.29)	-0.088 (-1.45)	-0.150** (-2.49)	-0.087 (-1.42)	-0.150** (-2.48)	-0.086 (-1.40)	-0.148** (-2.47)
<i>Unemployment</i>	10.59*** (3.38)	2.753** (2.56)	10.61*** (3.38)	2.741** (2.55)	10.51*** (3.35)	2.077** (2.58)	-0.219 (-0.07)	5.207** (2.13)	-0.133 (-0.04)	5.248** (2.15)	-0.057 (-0.02)	5.324** (2.17)
<i>Unemployment at t0</i>	-0.796 (-0.98)	-0.549 (-1.34)	-0.804 (-0.98)	-0.556 (-1.36)	-0.796 (-0.97)	-0.557 (-1.35)	-2.750 (-1.16)	-6.633** (-2.52)	-2.701 (-1.13)	-6.619** (-2.51)	-2.694 (-1.12)	-6.617** (-2.49)
<i>Specialization</i>	-0.265*** (-4.46)	0.038 (1.30)	-0.265*** (-4.47)	0.0384 (1.30)	-0.265*** (-4.48)	0.038 (1.30)	0.944*** (9.12)	0.193*** (2.99)	0.944*** (9.09)	0.193*** (2.99)	0.945*** (9.09)	0.194*** (2.98)
<i>Specialization at t0</i>	0.166 (1.05)	0.028 (0.24)	0.166 (1.05)	0.026 (0.22)	0.166 (1.04)	0.023 (0.20)	-1.281 (-1.63)	-1.134* (-1.76)	-1.254 (-1.61)	-1.113* (-1.73)	-1.262 (-1.62)	-1.123* (-1.73)
<i>Concentration</i>	0.294 (0.18)	0.345 (0.30)	0.289 (0.17)	0.337 (0.29)	0.267 (0.16)	0.363 (0.31)	-1.089 (-0.44)	-0.676 (-0.26)	-1.021 (-0.41)	-0.648 (-0.25)	-0.968 (-0.39)	-0.597 (-0.23)
<i>Concentration at t0</i>	-2.564* (-1.93)	-1.240 (-1.43)	-2.556* (-1.92)	-1.249 (-1.44)	-2.582* (-1.94)	-1.203 (-1.40)	6.909 (1.22)	6.083 (1.35)	6.900 (1.23)	6.028 (1.34)	7.003 (1.25)	6.128 (1.37)
<i>Diversity</i>	-3.389** (-2.32)	0.467 (0.63)	-3.392** (-2.32)	0.464 (0.63)	-3.378** (-2.32)	0.460 (0.63)	4.801*** (2.83)	-1.872 (-0.98)	4.833*** (2.85)	-1.853 (-0.97)	4.823*** (2.86)	-1.853 (-0.97)
<i>Diversity at t0</i>	-0.342 (-0.30)	-0.151 (-0.22)	-0.345 (-0.31)	-0.153 (-0.22)	-0.381 (-0.34)	-0.107 (-0.15)	-0.793 (-0.24)	-0.574 (-0.13)	-0.782 (-0.24)	-0.576 (-0.13)	-0.672 (-0.21)	-0.477 (-0.11)

<i>Percentile of labor income</i>	0.109**	0.029	0.109**	0.028	0.111**	0.025	-0.737***	0.014	-0.727***	0.020	-0.730***	0.017
	(2.55)	(1.48)	(2.52)	(1.41)	(2.54)	(1.31)	(-6.95)	(0.16)	(-6.87)	(0.23)	(-6.84)	(0.20)
<i>Parents' Percentile of labor income</i>	-0.092**	-0.009	-0.093**	-0.011	-0.095**	-0.009	0.385***	0.382***	0.399***	0.388***	0.401***	0.390***
	(-2.13)	(-0.36)	(-2.19)	(-0.43)	(-2.22)	(-0.37)	(3.51)	(3.88)	(3.77)	(3.83)	(3.75)	(3.85)
<i>Percentile of capital income</i>	-0.079	-0.009	-0.079	-0.008	-0.082	-0.005	0.799***	-0.300***	0.791***	-0.305***	0.797***	-0.300***
	(-1.59)	(-0.45)	(-1.57)	(-0.40)	(-1.62)	(-0.25)	(6.39)	(-3.74)	(6.26)	(-3.85)	(6.16)	(-3.82)
<i>Parents' Percentile of capital income</i>	0.060	-0.011	0.060	-0.011	0.061	-0.010	-0.439***	-1.256***	-0.438***	-1.253***	-0.436***	-1.253***
	(1.36)	(-0.49)	(1.36)	(-0.49)	(1.37)	(-0.48)	(-4.16)	(-14.23)	(-4.14)	(-14.12)	(-4.12)	(-14.03)
<i>Married</i>	-0.004	0.001	-0.004	0.001	-0.005	0.001	0.060	0.205***	0.059	0.205***	0.059	0.205***
	(-0.40)	(0.09)	(-0.40)	(0.11)	(-0.43)	(0.13)	(1.28)	(5.03)	(1.25)	(5.01)	(1.25)	(5.01)
<i>Parents married</i>	-0.004	-0.006	-0.003	-0.006	-0.003	-0.007	-0.165**	-0.053	-0.168**	-0.055	-0.171**	-0.057
	(-0.14)	(-0.43)	(-0.13)	(-0.41)	(-0.12)	(-0.46)	(-2.29)	(-0.61)	(-2.35)	(-0.63)	(-2.39)	(-0.65)
<i>Divorced</i>	0.018	0.017	0.0181	0.017	0.0184	0.016	0.046	0.136	0.045	0.136	0.043	0.134
	(0.54)	(0.99)	(0.54)	(1.01)	(0.56)	(0.96)	(0.42)	(1.28)	(0.41)	(1.28)	(0.39)	(1.26)
<i>Parents divorced</i>	-0.047	-0.008	-0.047	-0.008	-0.047	-0.009	0.062	-0.097	0.062	-0.096	0.060	-0.098
	(-1.46)	(-0.46)	(-1.45)	(-0.46)	(-1.46)	(-0.48)	(0.65)	(-1.06)	(0.65)	(-1.05)	(0.62)	(-1.06)
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	138295	137531	138295	137531	138295	137531	140213	140329	140213	140329	140213	140329
R-Squared	0.581	0.431	0.581	0.431	0.581	0.431	0.247	0.100	0.247	0.100	0.247	0.100
F: Social Skills=Cognitive Ability	16.21	4.24					0.88	4.01				
Prob > F	0.000	0.043					0.352	0.049				

**Table 6**

**Entrepreneurial and Capital Income.**

We report the linear regression model for the logarithm of entrepreneurial (Panel A) and capital income (Panel B) on a set of explanatory variables defined in Appendix A and Table 1. We used only households with at least 25% of total income is entrepreneurial income (Panel A) or at least 10% of income is capital income (Panel B). The data are for 1999-2006. Standard errors are clustered on labor market area level at time t. All specifications has (unreported) fixed effects for year, year of birth, labor market area at time t, and labor market area during childhood.

**Panel A: Entrepreneurial Income**

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Social skills</i>	0.261*** (7.68)	0.317*** (7.78)	0.438*** (8.28)	0.510*** (8.30)	0.588*** (7.50)	0.679*** (7.12)	0.799*** (7.42)
<i>Cognitive Ability</i>	0.189*** (5.89)	0.257*** (6.13)	0.478*** (4.26)	0.583*** (4.82)	0.466*** (4.48)	0.530*** (4.66)	0.752*** (4.62)
<i>Local entrepreneurship at t0</i>	0.959 (1.09)	0.953 (1.04)	1.356* (1.75)	1.012 (1.41)	0.799 (0.88)	0.824 (0.93)	0.783 (1.10)
--- * <i>Social skills</i>			-1.325* (-1.79)	-2.097*** (-3.01)			-1.446** (-2.02)
--- * <i>Cognitive skills</i>			-2.376*** (-2.90)	-3.491*** (-3.90)			-2.991*** (-3.67)
<i>Share of entrepreneurial income in parental income</i>	-0.153 (-1.64)	-0.177* (-1.87)	-0.167* (-1.90)	-0.150* (-1.79)	-0.171* (-1.86)	-0.200** (-2.36)	-0.171** (-2.22)
--- * <i>Social skills</i>		-0.344*** (-5.84)	-0.316*** (-4.52)	-0.771*** (-2.99)	-0.330*** (-5.55)	-0.798*** (-5.13)	-1.223*** (-4.20)
--- * --- * <i>Local entrepreneurship at t0</i>				4.275** (2.16)			4.361** (2.30)
---- * <i>Cognitive Ability</i>		-0.403*** (-4.95)	-0.347*** (-5.89)	-1.032*** (-4.69)	-0.391*** (-5.06)	-0.730*** (-4.57)	-1.253*** (-5.27)
--- * --- * <i>Local entrepreneurship at t0</i>				6.420*** (3.40)			6.269*** (2.97)
<i>Local entrepreneurship</i>	3.776*** (3.21)	3.877*** (3.35)	4.172*** (3.72)	4.073*** (3.63)	5.599*** (4.99)	5.377*** (4.84)	5.376*** (4.68)
--- * <i>Social skills</i>					-3.151*** (-4.64)	-4.177*** (-4.59)	-4.018*** (-4.15)
--- * --- * <i>Share of entrepreneurial income in parental income</i>						5.167*** (3.58)	4.836*** (4.33)
---- * <i>Cognitive Ability</i>					-2.485** (-2.61)	-3.219*** (-2.99)	-2.563*** (-2.93)
--- * --- * <i>Share of entrepreneurial income in parental income</i>						3.783*** (3.29)	2.674** (2.10)
<i>Share of capital income in parental income</i>	0.008 (0.15)	0.153 (1.25)	0.145 (1.29)	0.145 (1.37)	0.148 (1.24)	0.172 (1.34)	0.169 (1.49)
<i>Right-leaning municipality</i>	-0.051*** (-3.15)	-0.050*** (-3.07)	-0.052*** (-3.16)	-0.051*** (-3.16)	-0.045** (-2.56)	-0.044** (-2.55)	-0.045*** (-2.65)
<i>Right-leaning municipality at t0</i>	-0.022** (-2.21)	-0.019* (-1.85)	-0.014 (-1.22)	-0.017 (-1.45)	-0.020** (-1.99)	-0.022** (-2.25)	-0.021* (-1.89)
<i>Family values leaning municipality</i>	0.198*** (4.05)	0.187*** (3.62)	0.182*** (3.48)	0.182*** (3.55)	0.184*** (3.29)	0.183*** (3.33)	0.180*** (3.32)
<i>Family values leaning municipality at t0</i>	0.077 (1.38)	0.071 (1.27)	0.072 (1.28)	0.075 (1.35)	0.073 (1.36)	0.075 (1.39)	0.078 (1.46)
<i>Unemployment</i>	3.830	3.268	3.136	3.334	3.154	3.390	3.449

	(1.09)	(0.92)	(0.89)	(0.95)	(0.90)	(0.97)	(0.98)
<i>Unemployment at t0</i>	-1.880	-2.009	-2.320	-2.412	-2.065	-2.053	-2.402
	(-0.65)	(-0.70)	(-0.76)	(-0.80)	(-0.72)	(-0.74)	(-0.83)
<i>Specialization</i>	0.036	0.026	0.012	0.018	0.018	0.018	0.014
	(0.57)	(0.43)	(0.20)	(0.30)	(0.30)	(0.31)	(0.25)
<i>Specialization at t0</i>	-0.077	-0.052	-0.019	-0.031	-0.060	-0.069	-0.046
	(-0.09)	(-0.06)	(-0.02)	(-0.04)	(-0.07)	(-0.08)	(-0.05)
<i>Concentration</i>	-0.221	-0.170	-0.150	-0.0387	-0.131	0.0775	0.169
	(-0.06)	(-0.05)	(-0.05)	(-0.01)	(-0.04)	(0.02)	(0.05)
<i>Concentration at t0</i>	-0.578	-0.879	-1.098	-1.156	-0.540	-0.527	-0.833
	(-0.13)	(-0.20)	(-0.25)	(-0.26)	(-0.13)	(-0.12)	(-0.18)
<i>Diversity</i>	0.878	0.936	0.790	0.866	0.821	0.920	0.879
	(0.40)	(0.42)	(0.36)	(0.40)	(0.39)	(0.44)	(0.42)
<i>Diversity at t0</i>	-1.941	-2.147	-2.482	-2.383	-1.994	-1.944	-2.140
	(-0.68)	(-0.76)	(-0.88)	(-0.84)	(-0.70)	(-0.68)	(-0.75)
<i>Percentile of labor income</i>	-1.502***	-1.484***	-1.477***	-1.469***	-1.482***	-1.480***	-1.467***
	(-14.38)	(-14.59)	(-14.53)	(-14.62)	(-14.87)	(-14.75)	(-14.77)
<i>Parents' Percentile of labor income</i>	-0.399***	-0.526***	-0.527***	-0.520***	-0.524***	-0.507***	-0.502***
	(-2.75)	(-3.78)	(-3.83)	(-3.67)	(-3.84)	(-3.67)	(-3.55)
<i>Percentile of capital income</i>	6.944***	6.942***	6.924***	6.909***	6.937***	6.939***	6.911***
	(32.18)	(32.13)	(32.05)	(32.27)	(32.18)	(32.25)	(32.33)
<i>Parents' Percentile of capital income</i>	-0.390***	-0.407***	-0.405***	-0.401***	-0.399***	-0.407***	-0.405***
	(-6.61)	(-6.74)	(-6.65)	(-6.88)	(-6.47)	(-6.58)	(-6.83)
<i>Married</i>	0.656***	0.637***	0.626***	0.624***	0.638***	0.639***	0.629***
	(7.48)	(7.51)	(7.48)	(7.63)	(7.63)	(7.67)	(7.75)
<i>Parents married</i>	0.394***	0.430***	0.428***	0.430***	0.432***	0.432***	0.433***
	(3.89)	(4.47)	(4.49)	(4.57)	(4.52)	(4.53)	(4.61)
<i>Divorced</i>	0.202	0.211	0.211	0.212	0.209	0.211	0.211
	(1.53)	(1.61)	(1.60)	(1.60)	(1.59)	(1.60)	(1.59)
<i>Parents divorced</i>	-0.038	-0.031	-0.034	-0.033	-0.028	-0.028	-0.030
	(-0.32)	(-0.26)	(-0.29)	(-0.28)	(-0.24)	(-0.24)	(-0.25)
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y
Observations	69,666	69,666	69,666	69,666	69,666	69,666	69,666
R-squared	0.458	0.460	0.461	0.461	0.461	0.462	0.463
F: Social Skills=Cognitive Ability	3.250						
Prob > F	0.075						

**Panel B: Capital Income**

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Social skills</i>	-0.302***	-0.306***	-0.655***	-0.827***	-0.153	-0.133	-0.588***
	(-3.27)	(-2.88)	(-4.33)	(-5.44)	(-0.86)	(-0.72)	(-2.92)
<i>Cognitive Ability</i>	-0.066	-0.046	-0.402*	-0.517**	-0.366**	-0.546***	-0.871***
	(-0.66)	(-0.42)	(-1.68)	(-2.03)	(-2.47)	(-3.60)	(-3.71)
<i>Local entrepreneurship at t0</i>	-1.652	-1.659	-0.990	-0.779	-1.470	-1.691	-0.804
	(-0.61)	(-0.61)	(-0.37)	(-0.29)	(-0.54)	(-0.63)	(-0.30)
--- * <i>Social skills</i>			3.953*	5.889***			6.191***
			(1.97)	(3.68)			(3.83)
--- * <i>Cognitive Ability</i>			3.953**	5.211***			4.567**
			(2.33)	(2.74)			(2.42)
<i>Share of entrepreneurial income in parental income</i>	0.475	0.540	0.597	0.534	0.544	0.547	0.536
	(1.30)	(1.44)	(1.56)	(1.35)	(1.43)	(1.45)	(1.35)
--- * <i>Social skills</i>		0.0440	-0.102	1.453*	0.0623	-0.274	1.148
		(0.16)	(-0.32)	(1.80)	(0.22)	(-0.53)	(1.18)
--- * --- * <i>Local entrepreneurship at t0</i>				-13.851**			-14.267**
				(-2.05)			(-2.09)
---- * <i>Cognitive Ability</i>		-0.251	-0.399**	0.754*	-0.302	1.235***	1.721***
		(-1.27)	(-2.08)	(1.80)	(-1.49)	(3.46)	(3.90)
--- * --- * <i>Local entrepreneurship at t0</i>				-10.173***			-7.563**
				(-2.80)			(-2.10)
<i>Local entrepreneurship</i>	-0.586	-0.465	-0.740	-0.62	-0.76	-0.317	-0.438
	(-0.09)	(-0.07)	(-0.11)	(-0.10)	(-0.12)	(-0.05)	(-0.07)
--- * <i>Social skills</i>					-1.764	-2.020	-3.154*
					(-1.06)	(-1.16)	(-1.70)
--- * --- * <i>Share of entrepreneurial income in parental income</i>						3.884	4.362
						(1.13)	(1.01)
---- * <i>Cognitive Ability</i>					3.799***	5.915***	4.862***
					(3.26)	(4.77)	(3.70)
--- * --- * <i>Share of entrepreneurial income in parental income</i>						-16.479***	-13.918***
						(-6.04)	(-4.64)
<i>Share of capital income in parental income</i>	1.243***	1.190***	1.253***	1.305***	1.175***	1.151***	1.274***
	(2.91)	(2.87)	(3.09)	(3.16)	(2.86)	(2.80)	(3.09)
<i>Right-leaning municipality</i>	0.012	0.011	0.013	0.012	0.011	0.010	0.012
	(0.26)	(0.26)	(0.29)	(0.26)	(0.24)	(0.23)	(0.27)
<i>Right-leaning municipality at t0</i>	-0.006	-0.007	-0.019	-0.021	-0.009	-0.008	-0.021
	(-0.28)	(-0.33)	(-0.83)	(-0.94)	(-0.42)	(-0.36)	(-0.921)
<i>Family values leaning municipality</i>	-0.183*	-0.185*	-0.169	-0.172*	-0.190*	-0.185*	-0.173*
	(-1.77)	(-1.77)	(-1.63)	(-1.72)	(-1.79)	(-1.76)	(-1.72)
<i>Family values leaning municipality at t0</i>	0.194	0.193	0.150	0.166	0.186	0.177	0.155
	(1.15)	(1.13)	(0.89)	(0.99)	(1.08)	(1.00)	(0.91)
<i>Unemployment</i>	39.634**	39.601**	39.712**	40.578**	38.667**	38.256**	39.342**
	(2.48)	(2.48)	(2.54)	(2.63)	(2.45)	(2.39)	(2.52)
<i>Unemployment at t0</i>	-3.532	-3.570	-3.130	-3.205	-3.670	-3.420	-3.338
	(-0.28)	(-0.29)	(-0.26)	(-0.27)	(-0.29)	(-0.27)	(-0.28)
<i>Specialization</i>	-0.526*	-0.511*	-0.464	-0.481*	-0.497*	-0.483*	-0.469*
	(-1.86)	(-1.81)	(-1.66)	(-1.74)	(-1.83)	(-1.78)	(-1.78)
<i>Specialization at t0</i>	3.474	3.581	3.444	3.391	3.585	3.578	3.388
	(1.22)	(1.28)	(1.22)	(1.21)	(1.28)	(1.29)	(1.21)
<i>Diversity</i>	5.093	4.988	5.173	5.466	4.846	4.575	5.087
	(0.62)	(0.60)	(0.63)	(0.68)	(0.58)	(0.55)	(0.62)
<i>Diversity at t0</i>	-1.901	-1.988	-2.576	-1.791	-1.788	-2.987	-2.438
	(-0.22)	(-0.23)	(-0.30)	(-0.22)	(-0.21)	(-0.33)	(-0.29)
<i>Concentration</i>	-8.052	-8.363	-8.998	-8.994	-8.517	-9.050	-9.416
	(-0.81)	(-0.83)	(-0.89)	(-0.89)	(-0.85)	(-0.90)	(-0.92)
<i>Concentration at t0</i>	-10.810	-11.308	-11.152	-10.264	-11.056	-11.838	-10.371
	(-0.74)	(-0.78)	(-0.75)	(-0.70)	(-0.76)	(-0.81)	(-0.70)
<i>Percentile of labor income</i>	-1.897***	-1.904***	-1.933***	-1.927***	-1.952***	-1.980***	-1.990***
	(-7.02)	(-7.13)	(-6.47)	(-6.49)	(-7.69)	(-7.96)	(-7.06)



<i>Parents' Percentile of labor income</i>	0.080 (0.15)	0.039 (0.07)	0.087 (0.16)	0.117 (0.21)	0.020 (0.04)	-0.005 (-0.01)	0.077 (0.14)
<i>Percentile of capital income</i>	11.93*** (60.73)	11.93*** (61.37)	11.940*** (60.06)	11.956*** (62.73)	11.962*** (62.42)	11.978*** (62.61)	12.001*** (63.39)
<i>Parents' Percentile of capital income</i>	1.289*** (2.83)	1.313*** (2.89)	1.251*** (2.82)	1.217** (2.63)	1.322*** (2.93)	1.343*** (3.00)	1.234*** (2.68)
<i>Married</i>	-0.705*** (-4.20)	-0.705*** (-4.23)	-0.666*** (-3.89)	-0.649*** (-3.65)	-0.709*** (-4.28)	-0.717*** (-4.47)	-0.661*** (-3.80)
<i>Parents married</i>	0.868*** (2.89)	0.873*** (2.87)	0.863*** (2.81)	0.834*** (2.65)	0.862*** (2.83)	0.854*** (2.79)	0.820** (2.59)
<i>Divorced</i>	-1.391*** (-5.40)	-1.392*** (-5.44)	-1.389*** (-5.38)	-1.381*** (-5.37)	-1.403*** (-5.54)	-1.402*** (-5.57)	-1.394*** (-5.48)
<i>Parents divorced</i>	0.726** (2.22)	0.726** (2.20)	0.728** (2.18)	0.717** (2.15)	0.714** (2.19)	0.702** (2.18)	0.700** (2.15)
<i>Year FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>Year of birth FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA FE</i>	Y	Y	Y	Y	Y	Y	Y
<i>LMA at t0 FE</i>	Y	Y	Y	Y	Y	Y	Y
Observations	11,867	11,867	11,867	11,867	11,867	11,867	11,867
R-squared	0.574	0.574	0.576	0.577	0.575	0.575	0.577
F: Social Skills=Cognitive Ability	2.433						
Prob > F	0.123						

