ABSTRACT

The objective of this dissertation is to investigate how private intergenerational transfers respond to public policy changes in Indonesia. In particular, this paper investigates how private education and non-education transfers respond to newly implemented education policies. This dissertation contributes to the existing literature on intergenerational transfers where there exist few investigations regarding empirical relationships between household decisions on school demand and child labor supply, private intergenerational transfers, and public policy.

This dissertation consists of three essays. The first essay develops a new method of estimating familial education and non-education transfers and public education transfers, using Indonesian Socio Economic Survey (*Susenas*) and Indonesian government budgeting data. The purpose of the second essay is to investigate how the introduction of nine-year compulsory education affects school enrollment and child labor supply. The third essay examines how this same education policy has influenced familial educational investment decisions and non-educational transfers in Indonesia.

Using the distance to the nearest school as an approximation of education policies implemented between 1993 and 1996, difference-in-differences results indicate that the policies led to a decline in child labor supply and an increase in

school enrollment of 2% to 4% among children aged 11 to 15. However, child labor did not decline proportionally. For an average of 6 km change in the school distance, non-educational transfers increased by as much as 5%. On the other hand, educational transfers increased by 10%. The non-educational transfer changes were due to both declining child labor income and increasing non-educational consumption. Thus, parents bear the higher education cost and lost opportunity cost by sending their children to school. In addition, non-education transfers are complementary with education expenditures. It is concluded that parents are still bound by the compulsory education laws. Households require their children to work in order for them to fulfill the higher expenditures. A subsidy is necessary in order for them to send their children to school and to reduce the child labor supply.