The Lame Drain

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Abstract
This paper develops a signaling theory where brain drain as well as the opposite of brain drain, a phenomenon we call “lame-drain” can result. In particular, we assume there are three types of agents according to their intrinsic abilities; education (with endogenous intensity) consists of two stages: undergraduate and graduate. There are two types of jobs: entry level and managerial. It is shown that under some circumstances the equilibrium is semi-pooling where the medium type chooses to work after undergraduate education while (a fraction of) both high and low types pursue graduate studies at home and abroad. Some high and low ability students return to work in the indigenous country in equilibrium. However, our model differs from the traditional brain drain models in that some low ability agents also go abroad in equilibrium and work in the host country after graduation, resulting in the recipient country hiring low ability agents, a phenomenon we call lame-drain. We then provide empirical evidence that lame-drain is indeed happening using U.S. Census data.