Income-Share Agreements on the Job Market: Debt Versus Equity

Joshua Jacobs

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Abstract

Income-share agreements (ISAs) recently have been gaining traction as a way for students to finance college education, marketed as a way for students to reduce the down-side risk of winding up in a low-paying job with high student debt. Because ISA payments are a fraction of the on-the-job wage, incentives for both applicant and provider are different from a traditional debt-financed job applicant on the job market. I develop a labor-search model to show how financing affects job-market outcomes such as wages, search duration, and overall utility, set within an equilibrium framework where the terms and methods of financing are endogenous. I show that ISAs can constitute an important part of the college-financing decision for financially-disadvantaged potential college students, and can act well as a substitute for traditional debt-markets when the cost of college is neither very low nor very high.