

markets), Maurer-Fazio argues that markets are improving because education is becoming an increasingly important determinant of off-farm earnings.

In this paper, our primary goal is to understand how well labor markets are functioning in rural China. Our paper has three specific objectives. First, we review previous studies on rates of return to human capital and examine why, based on the literature, it can be argued that labor markets are not functioning

**Rates of Returns and the Literature's
Methodological Shortcomings**

In order to account for the propensity of certain individuals to select into a wage-earning market, we followed Heckman and also estimated (simultaneously) a participation equation that (following de Brauw) includes a set of control variables X_4 , in addition to X_1 , X_2 , and X_3 . In our estimation, X

de Brauw, A. "Three Essays on Migration, Education, and Development in Rural China."