CLIMBING THE LADDER
SOCIO-ECONOMIC MOBILITY IN MALAYSIA

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KHAZANAH RESEARCH INSTITUTE
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It was approved by the editorial committee namely, the Managing Director of KRI, Dato’ Charon Mokhzani; Dr Suraya Ismail; and Junaidi Mansor.

It was authorised for publication by Dato’ Charon Mokhzani.

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This publication is based on the “Climbing the Ladder: Socio-economic Mobility in Malaysia”, which is available at www.KRInstitute.org.
Inequality and poverty in Malaysia have been declining since the 1970s. Yet, little is known about how children from different backgrounds have performed. A study on socio-economic mobility provides another measure of how Malaysian families have fared in the face of growth and structural transformation. Socio-economic mobility is a key driver in reducing economic inequality, promoting economic growth, and ensuring social cohesion, particularly in Malaysia.

1. Scope of the study

This study of intergenerational socio-economic mobility compares the education, occupational skill, and income status of 4,999 parent-child pairs at a comparable working age. The sample consists of parents born between 1945 and 1960, and their first child born between 1975 and 1990, across all states in Malaysia.

### Intergenerational mobility

<table>
<thead>
<tr>
<th>Parent²</th>
<th>35 years old during 1980 and 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>VS</td>
<td></td>
</tr>
<tr>
<td>Child³</td>
<td>Between 25 and 40 years old in 2015</td>
</tr>
</tbody>
</table>

### Three dimensions of mobility

- Education
- Occupational Skill
- Income

2. Questions addressed in this study

1. Are Malaysian children better off than their parents in terms of education attainment, occupational skill level, and income?
2. To what extent does one’s current socio-economic status depend on the socio-economic status of one’s parent?
3. Is the degree of socio-economic mobility uniform across all groups regardless of gender and ethnicity?
4. What are the key factors that determine income mobility?

Notes:

1. For a detailed explanation on the methodology, please refer to the notes in page 17.
2. ‘Parent’ refers to the head of family, who can either be the father or the mother.
3. ‘Child’ refers to either the first son or daughter in the family born between 1975 and 1990.
### The majority of parents are optimistic about their children’s status...

#### 3. Parents’ perception of their children’s socio-economic status compared to theirs, overall and by ethnic group

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Bumiputera</th>
<th>Chinese</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower or the same</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
<td>34%</td>
</tr>
<tr>
<td>Higher</td>
<td>74%</td>
<td>74%</td>
<td>74%</td>
<td>64%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>

### “Taraf pendidikan sekarang lebih baik; kita semua boleh membaca sekarang berbanding dengan orang dulu. Kemudahan pun lebih baik, tak susah macam dulu.”

*Pn Asmah, Sibu, Sarawak*

### “Dulu pendapatan bergantung pada tanaman padi sahaja. Tetapi sekarang macam-macam peluang yang ada untuk dapatkan pendapatan.”

*En Dullah, Kota Belud, Sabah*

### “Taraf kehidupan jauh lebih baik, ada bantuan kerajaan, dulu tak ada tanah, sekarang ada tanah.”

*En Ali, Kluang, Johor*

### “Hidup anak lebih baik, mampu beli rumah, kenderaan. Makan minum mereka mewah.”

*En Saiful, Felda Kahang Timur, Johor*

### However, the optimism is not shared by all...

### “Tiada apa yang berubah. Kami masih tinggal di rumah yang sama, kerja yang sama, dan masih miskin.”

*En Bahrain, Tasik Chini, Pahang*

### “Ramai di sini tiada kerja. Pendidikan ada tapi kerja tiada. Peluang pekerjaan mesti diadakan.”

*En Taun, Selangau, Sarawak*

### “Sekarang susah dapat kerja... seperti anak saya.”

*Pn Lim, Kepala Batas, Kedah*

### “Minat belajar tu ada... tapi kami tiada duit.”

*En Thurairaji, Sungai Siput, Perak*

### The majority believe that good education and hard work are important for upward mobility...

### “Pertama kerja kuat. Kedua mesti ada pendidikan yang bagus, barulah senang dapat kerja.”

*Pn Jona, Sibu, Sarawak*

### “Kerja keras dan pendidikan penting. Kita mesti utamakan masa depan. Kerajaan mesti tambah baik kemudahan dan tolong orang miskin lagi.”

*En Patrick, Balakong, Selangor*

### “Peluang ada, terutamanya kepada orang Melayu. Tapi mesti kerja kuat. Jangan hanya bergantung kepada ‘tongkat’.”

*En Amirul, Shah Alam, Selangor*

### “Mesti rebut setiap peluang yang ada. Kemahiran itu penting.”

*Pn Nurul, Pokok Sena, Kedah*

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**Note:**
- The names quoted are not the real names of the respondents.
Almost two-thirds of the children are better educated than their parents.

4. Children’s educational mobility

62% of children are better educated than their parents. 2% of children are less educated.

5. Percentage of children at each education level, by parent’s education level

33% of children born to parents with no formal education have tertiary education. 92% of children born to parents with tertiary education have followed in the footsteps of their parents.

In general, children born to parents with tertiary education also have tertiary education. For children born to parents without formal education, most have a higher level of education than their parents.
The proportion of children who have tertiary education and born to parents without formal education is larger among Chinese and Bumiputera compared to Indians. Meanwhile, among those born to tertiary educated parents, the majority of them also have tertiary education regardless of ethnicity.

### 6. Percentage of children at each education level, by parent’s education level

<table>
<thead>
<tr>
<th>Parent’s Education Level</th>
<th>Percentage of Children at each Education Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No formal education</td>
</tr>
<tr>
<td><strong>Bumiputera</strong></td>
<td></td>
</tr>
<tr>
<td>No formal education</td>
<td>33%</td>
</tr>
<tr>
<td>Primary</td>
<td>38%</td>
</tr>
<tr>
<td>Secondary</td>
<td></td>
</tr>
<tr>
<td>Tertiary</td>
<td>56%</td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th>Parent’s Education Level</th>
<th>Percentage of Children at each Education Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No formal education</td>
</tr>
<tr>
<td><strong>Chinese</strong></td>
<td></td>
</tr>
<tr>
<td>No formal education</td>
<td>44%</td>
</tr>
<tr>
<td>Primary</td>
<td>37%</td>
</tr>
<tr>
<td>Secondary</td>
<td></td>
</tr>
<tr>
<td>Tertiary</td>
<td>65%</td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th>Parent’s Education Level</th>
<th>Percentage of Children at each Education Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No formal education</td>
</tr>
<tr>
<td><strong>Indian</strong></td>
<td></td>
</tr>
<tr>
<td>No formal education</td>
<td>5%</td>
</tr>
<tr>
<td>Primary</td>
<td>13%</td>
</tr>
<tr>
<td>Secondary</td>
<td></td>
</tr>
<tr>
<td>Tertiary</td>
<td>45%</td>
</tr>
</tbody>
</table>
Are Malaysian children better skilled than their parents?

85% of children have a higher or the same skill level compared to their parents.

7. Children’s occupational skill mobility

37% of children are better skilled than their parents.

Better | The same | Less
---|---|---
37% | 48% | 15%

15% of children are less skilled.

8. Percentage of children at each occupational skill level, by parent’s occupational skill level

<table>
<thead>
<tr>
<th>Parent’s Occupational Skill Level</th>
<th>Percentage of Children at each Occupational Skill Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low skill</td>
<td>Mid skill</td>
</tr>
<tr>
<td>Low skill</td>
<td>28%</td>
</tr>
<tr>
<td>Mid skill</td>
<td>33%</td>
</tr>
<tr>
<td>High skill</td>
<td>63%</td>
</tr>
</tbody>
</table>

The majority of children born to high-skilled parents are also high-skilled themselves. For children born to low-skilled parents, most have a higher level of occupational skill than their parents.

Note:

Occupations are classified according to the Malaysia Standard Classification of Occupation 2008 (MASCO-08) and the Department of Statistics Malaysia. Accordingly, managers and professionals, for instance, are considered high skill, clerical workers are considered mid skill, elementary occupations are considered low skill.
The proportion of children born to low-skilled parents that have high skills is larger among Chinese and Bumiputera compared to Indians. Meanwhile, among those born to high-skilled parents, the majority of them are also high-skilled regardless of ethnicity.

9. Percentage of children at each occupational skill level, by parent’s occupational skill level

25% of Bumiputera children born to low-skilled parents are high-skilled.

While for Chinese, it is 39%...

...and for Indians, it is 19%
In absolute terms, do children earn a higher income than their parents?

Half of the children earn a higher income than their parents in absolute terms. The majority of children born to parents in the bottom income quintile (Q1) have higher incomes than their parents. On the other hand, very few children born to parents in the top income quintile (Q5) earn more than their parents.

### 10. Percentage of children with higher income than their parents, by parent’s income quintile

<table>
<thead>
<tr>
<th>Parent’s Income Quintile</th>
<th>Percentage with Higher Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>50%</td>
</tr>
<tr>
<td>Quintile 1 (Q1)</td>
<td>82%</td>
</tr>
<tr>
<td>Quintile 2 (Q2)</td>
<td>76%</td>
</tr>
<tr>
<td>Quintile 3 (Q3)</td>
<td>61%</td>
</tr>
<tr>
<td>Quintile 4 (Q4)</td>
<td>35%</td>
</tr>
<tr>
<td>Quintile 5 (Q5)</td>
<td>10%</td>
</tr>
</tbody>
</table>

Notes:

1. Parent’s income is inflation-adjusted to the year 2015.
2. Income quintile is a grouping of sample by income. The quintiles are derived by dividing the sample (sorted by income in ascending order) into five quintiles, with approximately 20% of respondents in each quintile. The income quintile for the parents and children differs according to the income distribution of their respective generation.
In relative terms, do children move up the income ladder?

The majority of the children born to parents in the bottom quintile (Q1) have moved up, while the majority of the children born to parents in the top quintile (Q5) have moved down. The majority of children born to parents in the middle quintiles (Q3 and Q4) have either stayed or moved down by at least one quintile.

11. Percentage of children in each income quintile, by parent’s income quintile

Children born to parents in the top quintile (Q5) have the largest proportion of being at the top (32%), while those born to parents in the bottom quintile (Q1) have the largest proportion of being at the bottom themselves (26%).
How about across ethnic groups?

12. Relative income mobility of children born to parents in the bottom income quintile (Q1)

- **90%** of Chinese children born to parents in the bottom quintile have moved up by at least one quintile.
- Among the Bumiputera, it is **73%**.
- ...and among the Indians, it is **62%**.

13. Relative income mobility of children born to parents in the top income quintile (Q5)

- **42%** of Chinese children born to parents in the top quintile have stayed at the top.
- Among the Indians, it is **31%**.
- ...and among the Bumiputera, it is **27%**.
While about 50% of the children earn a higher income than their parents, only 35% have moved up by at least one quintile, and while 50% earn a lower income, only 38% have moved down by at least one quintile.

Hence, earning a higher or a lower income than one’s parent does not necessarily translate into a change in income quintiles.

14. Percentage of children who experience income mobility in relative and absolute terms, by parent’s income quintile

<table>
<thead>
<tr>
<th>Parent’s Income Quintile</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upwardly Mobile</td>
<td>35</td>
</tr>
<tr>
<td>Riding the Rising Tide</td>
<td>13</td>
</tr>
<tr>
<td>Status Quo</td>
<td>1</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>12</td>
</tr>
<tr>
<td>Falling Despite the Rising Tide</td>
<td>1</td>
</tr>
<tr>
<td>Downwardly Mobile</td>
<td>38</td>
</tr>
</tbody>
</table>

Most of those born in the top and bottom quintile do not stay in the same quintile as adults.

A relatively smaller proportion of children born in the middle quintiles have moved up, as most of them have either stayed or moved down by at least one quintile instead.

Notes:
1. Children born to parents in Q5 could not be “upwardly mobile” as Q5 is the highest quintile.
2. Children born to parents in Q1 could not be “falling despite the rising tide” or “downward mobile” as Q1 is the lowest quintile.
To what extent is the influence of parent’s income on children’s income?

The intergenerational earnings elasticity (IGE)\(^1\) measures the association of the parents’ income on the income of their children, in order to assess the extent of the influence of parent’s income.

By the IGE measure, a relatively small proportion of children’s income is associated with parents’ income, especially among the sons.

15. IGE, by selected countries\(^2\)

<table>
<thead>
<tr>
<th>Country</th>
<th>IGE Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>DNK</td>
<td>0.15</td>
</tr>
<tr>
<td>AUT</td>
<td>0.16</td>
</tr>
<tr>
<td>NOR</td>
<td>0.17</td>
</tr>
<tr>
<td>FIN</td>
<td>0.18</td>
</tr>
<tr>
<td>MYS</td>
<td>0.19</td>
</tr>
<tr>
<td>CAN</td>
<td>0.19</td>
</tr>
<tr>
<td>SWE</td>
<td>0.27</td>
</tr>
<tr>
<td>ESP</td>
<td>0.32</td>
</tr>
<tr>
<td>DEU</td>
<td>0.32</td>
</tr>
<tr>
<td>FRA</td>
<td>0.41</td>
</tr>
<tr>
<td>USA</td>
<td>0.47</td>
</tr>
<tr>
<td>ITA</td>
<td>0.48</td>
</tr>
<tr>
<td>GBR</td>
<td>0.50</td>
</tr>
</tbody>
</table>

In Malaysia, not more than 19% of children’s income is associated with parents’ income.

16. IGE, by gender of child\(^3\)

Across Malaysia...

- Son: 0.18
- Daughter: 0.23

Across ethnic groups...

- Bumiputera: Son 0.17, Daughter 0.19
- Chinese: Son 0.16, Daughter 0.20
- Indian: Son 0.19, Daughter 0.27

Notes:

1. The IGE value ranges between zero and one. An IGE of zero implies complete mobility, whereby children from families of different economic background encounter the same expected income, with no association between parent and child’s income. An IGE of one signifies that parent and child’s incomes are fully associated, i.e., a case of complete immobility. The IGE calculations in this analysis only include working respondents who earned monthly salaries and wages, and/or earned income from self-employment.

2. These countries were selected due to the fact that the IGE values are based on similar estimation techniques, samples, and variable definitions, without taking into account the differences in the study period. Source: OECD – estimates from various studies, KRI.

3. The IGE results by gender are representative at sample level only.
What determines upward income mobility of those born in the bottom 40?

Among those born in the bottom 40% of the income distribution (Q1 and Q2), children with tertiary education, male children, children raised in urban areas, and children born to parents with savings have higher odds of moving up by at least one income quintile.

17. Relative chance of being upwardly mobile for B40 group

- **Children with tertiary education** are... 4.6 times more likely to be upwardly mobile than those without.
- **Children whose parents have savings** are... 1.7 times more likely to be upwardly mobile than those whose parents do not have savings.
- **Male children** are... 3.6 times more likely to be upwardly mobile than females.
- **Children raised in urban areas** are... 1.5 times more likely to be upwardly mobile than those raised in rural areas.

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**Notes:**

- A logistic regression model was run on upward relative income mobility that included tertiary education of parent and child, gender and ethnicity of child, child raised in urban or rural area (strata), financial assistance (scholarships), preschool education of child, parent’s savings, and family structure (raised by single parent or both parents). We detect no multicollinearity in the model. Odds ratios shown are statistically significant at 95% level or higher.
- B40 refers to children born to parents in the bottom 40% of income distribution (Q1 & Q2).
What determines downward income mobility of those born in the top 20? 

Among those born in the top 20% of the income distribution (Q5), children without tertiary education, Bumiputera children, female children, and children who were not raised by both parents have higher odds of moving down by at least one income quintile.

### 18. Relative chance of being downwardly mobile for T20 group

**T20**

**Downward income mobility factors**

- **Children without tertiary education are...**
  - 6.1 times more likely to be downwardly mobile than those with tertiary education

- **Female children are...**
  - 3.0 times more likely to be downwardly mobile than male children

- **Children not raised by both parents are...**
  - 2.5 times more likely to be downwardly mobile than those raised by both parents

- **Bumiputera children are...**
  - 1.9 times more likely to be downwardly mobile than Chinese children

**Notes:**
- A logistic regression model was run on downward relative income mobility that included tertiary education of parent and child, gender and ethnicity of child, child raised in urban or rural area (strata), financial assistance (scholarships), preschool education of child, parent’s savings, and family structure (raised by single parent or both parents). We detect no multicollinearity in the model. Odds ratios shown are statistically significant at 90% level or higher.
- T20 refers to children born to parents in the top 20% of income distribution (Q5).
• Malaysia is a mobile society. One’s starting point is not the most important factor for mobility, and rags-to-riches stories are possible.
  ○ Education mobility is high—62% of the children are better educated than their parents. Upward education mobility is remarkable among children born to non-tertiary educated parents. In particular, among those born to parents without formal education, 33% have attained tertiary education.
  ○ In terms of occupational skill mobility, 37% of the children are better skilled than their parents. Upward occupational skill mobility is more pronounced among children with low-skilled parents; 76% of them are better skilled.
  ○ The parents’ income status is not the most important factor for the children’s income mobility. Almost three in four of the children born to parents in the bottom quintile have moved up, while two in three born in the top quintile have moved down. In other words, children born to parents in the bottom quintile do not generally stay poor as adults, while those born to parents in the top quintile do not necessarily stay rich as adults.
  ○ In fact, children’s income is fairly independent of parents’ income. Only 19% of children’s income is associated with parents’ income. This means a larger proportion of one’s income is associated with other factors apart from parent’s income.
  ○ However, there is a ‘middle class squeeze’ for children born to middle income parents. Many of these children do not only move down the income ladder, they also earn less than their parents.

• What are the differences between those who managed to climb the ladder and those who did not?
  ○ For children from the B40, having a tertiary education is a key factor for upward mobility.
  ○ Savings are also important. Children born to parents with some forms of savings have a better chance to climb the income ladder.
  ○ Gender and location are also key determinants for upward mobility. Children raised in rural areas are less likely to move up compared to those raised in urban areas, and females are less likely to move up compared to males.
  ○ For children from the T20, having a tertiary education is a key factor to stay at the top.
  ○ Ethnicity has no significant effect on moving up the income ladder for the B40, although there is some evidence of its significance on upward education and occupational skill mobility. On the other hand, ethnicity also has a significant effect on downward income mobility for the T20.
Firstly, facilitating wider access to education opportunities can enhance upward mobility. This study observes that only 5% of Indians born to parents without formal education have attained tertiary education. Hence, policies in promoting early childhood education, tertiary education, as well as ensuring that children stay in school are important.

Secondly, women are less upwardly mobile than men. Policies focusing on removing gender barriers and encouraging higher female participations in the labour market should be continued.

Thirdly, urban children are more likely to move up compared to rural children. Policies that focus on assisting children from rural areas are vital.

Fourthly, it is observed that having some form of assets are important for upward mobility. Policies that raise income and purchasing power must be rigorously pursued.

Finally, this study finds that some forms of “middle class squeeze” have occurred. Hence, a lot more emphasis needs to be placed on the middle income group, without neglecting those in the lower income groups and the pockets of poverty that still persist. The call for inclusive development policies as outlined in the strategies of the Eleventh Malaysia Plan is a step in the right direction.

Overall, social mobility is about the spread of opportunities and incentives. We believe that every child in Malaysia regardless of race, religion, descent, place of birth, and gender must be given an equal opportunity in life. Upward mobility is necessary not only because it promotes economic growth and reduces inequality, but more importantly, it is crucial in ensuring stability and social cohesion for our next generation.
Survey design and data collection

Data collection method: Data for this study was collected via face-to-face interviews with heads of family using a questionnaire prepared by Khazanah Research Institute. Data collection was carried out between November 2014 and August 2015. The respondent was asked of his/her socio-economic status when he/she was aged 35 years, and the current socio-economic status of the child. The retrospective and proxy-reported information approach is commonly used in income and mobility studies (see Pew 2012, Solon 1992, Gershuny 2002, Khor N and Pencavel J 2008, DOS 2015).

Scope and coverage: The survey covers all states in Malaysia, comprising both urban and rural areas. The enumerators visited families who were chosen randomly. Only families living in private living quarters were interviewed, while those living in residential institutions, such as hotels, hospitals, and welfare homes were excluded.

Sampling frame: The frame used for this study was based on the household sampling frame from the Department of Statistics Malaysia (DOS) comprising enumeration blocks (EBs) for Population and Housing Census 2010, Malaysia. EBs are geographically adjoining areas with well-defined boundaries created for survey purposes.

Sampling technique: A two-stage stratified sampling design was adopted. The levels of stratification are as below:

i) Primary strata: covering all states in Malaysia.
ii) Secondary strata: covering urban and rural areas in each state.

Sample size and response rate: The sample size for this study is 4,999. Except for Sarawak, all states achieved the optimum number of respondents recommended by the DOS, with some states attaining higher-than-optimum response rates.

Post-stratification weights: Post-stratification weights were calculated to adjust for possible bias due to under and over-representation of the sample. Weights were calculated with the assistance from DOS to ensure the sample is representative by state, stratum, and ethnic group.

Key demographic characteristics of respondents

Mean age: Parents = 61 years old, Children = 33 years old
Gender of children: Sons = 53.1%, Daughters = 46.9%
Ethnic group: Bumiputera = 81.2%, Chinese = 12.2%, Indian = 5.5%
Parents born outside Malaysia: 1.8%

Definition of key measures

The parent or head of family is any family member considered as the head of family by other family members. The parent must be born between 1945 and 1960, (aged between 55 and 70 years in 2015).

The child is an individual born between 1975 and 1990, (aged between 25 and 40 years in 2015).

Education is classified by the highest formal education level and highest certificate obtained based on the International Standard Classification of Education (ISCED).

Occupations are classified according to the Malaysia Standard Classification of Occupation (MASCO) 2008 based on the International Standard Classification of Occupations (ISCO-08).

Parent’s income: The monthly income is the retrospective earnings of the parent at age 35 and recorded based on the parent’s recollection.

Child’s income: The monthly income for the child were recorded based on information obtained from the parent and/or other family members.

Note: For income comparison between parent and child, only salaries and wages, and income from self-employment were taken into account for analysis.

Savings: Savings is defined in this issue brief as having savings in at least one of the following forms – funds under Permodalan Nasional Berhad, funds under Lembaga Tabung Haji (Pilgrims Fund Board), savings account, fixed deposit account, unit trust, liquid cash, or physical assets.

Glossary

• Inflation: A general increase in prices, usually expressed as an annual percentage rate of change. The inflation rate is based on the consumer price index.

• Income quintile: Income quintiles are a specific classification of the sample which divides the sample (sorted by income in ascending order) into five groups, with approximately 20% of respondents in each quintile.

• B40: B40 refers to the bottom 40% of the income distribution, ie Q1 and Q2.

• M40: M40 refers to the middle 40% of the income distribution, ie Q3 and Q4.

• T20: T20 refers to the top 20% of the income distribution, ie Q5.

• Absolute income mobility: Income mobility in absolute terms compares the income level of parents and children in real terms.

• Relative income mobility: Income mobility in relative terms compares the income quintile of parents and children.

• Education mobility: Education mobility is defined by a change of at least one level in children’s education level compared to their parents.

• Occupational skill mobility: Occupation skill mobility is defined by a change of at least one level in children’s occupational skill level compared to their parents.

• Logistic regression: Logistic regression is a regression model which measures the likelihood of observing an outcome based on one or more independent variables.

• Transition matrices: Transition matrices compare the child’s position against his/her parent’s position, in terms of education, occupational skill, and income.