

Economics of Higher Education
EOL 590EHE and EPS 590GK
Wednesday 5:00pm – 7:50pm
Room 176

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Office Hours: Tuesday and Thursday
3pm – 5pm or by appointment

Background

This is an economics course focusing on both substantive and methodological issues in higher education. It assumes knowledge of basic statistics and quantitative research methodology. Some basic knowledge of labor economics, microeconomics, and the economics of education is useful but not necessary. If a student has no background in any of these areas, they should consult with Professor Kienzl before enrolling. The course uses the tools of economic analysis to address issues in three broad areas: 1) How do students choose to go to college, how do they choose among different types of colleges, and what are the economic returns to individuals of attending different types of institutions of postsecondary institutions? 2) How does financial aid and institutional finance policy affect these decisions? and 3) How can we use economics to analyze the behavior of students and institutions in a national and international context?

Course requirements and student evaluation

1 - Class participation and discussion questions (30% of final grade): Students are expected to attend class regularly and in a timely fashion, carefully read class materials *before* class, and actively participate in class discussion. Students are also expected to actively raise questions, engage in class discussion, and make comments in class that indicate a meaningful understanding of the material. Even when your group has not been assigned a set of discussion questions (see below), there is an expectation that the readings have been completed in order to actively participate in the discussion.

If you will miss a class, you are required to submit the discussion questions for that day (see explanation below). If you are absent from class, you are responsible for finding out from other students what was covered and getting any materials or instructions that were handed out.

Discussion questions/commentaries: Over the course of the semester, students will be asked to respond to a set of discussion questions that are germane to the topic being covered. Students in the class will be divided in two groups, A and B, and each person in the group is required to write 2 “commentaries” addressing the research question posed and using the readings as evidence *before coming to class*. The schedule for each group is listed in page 3, and the respective discussion questions are listed before the readings. These commentaries are to be no more than *five single spaced typed pages in 12 point type* with one inch margins on all sides. Hardcopy of the commentaries are to be handed in at class time. Commentaries that are not turned in when due will be given an F.

2 - A term paper (70% of final grade): The papers must be based on original empirical research and, if needed, a nationally representative education dataset will be provided. The **final paper proposal** is due on March 26, 2008. **Final papers** are due on April 30, 2008.

Format: The paper must be 15-20 pages long, double spaced, with one-inch margins on all sides (top and bottom, left and right). The pages must be numbered, beginning with the first page after the title page (which should include the paper title, name, the course name and number, and the date). Be sure to provide an introduction (what motivates the analysis), a discussion of the methodology and data, and a summary and/or conclusion (summing up the findings and/or policy implications of those findings). Liberal use of headings throughout the paper to break up the text is appreciated. For references, use the APA style of citation (in which you refer to sources by inserting parentheses in text giving the author, date of publication, and the relevant page if necessary) and then list all the sources alphabetically on a

reference page at the end of the paper. When citing an author with two or more publications in a given year, distinguish them with letters after the date e.g. 1999a, 1999b. Reserve footnotes just for substantive comments that do not seem worth putting into the text.

Reading assignments

The articles marked with an asterisk (*) below are required readings for the course. Readings that are not marked with an asterisk are recommended but not required. Students are also required to purchase Thomas Kane's *The Price of Admission*, which is available in the UIUC bookstore. Three other books are shown, but they are not required for the course.

Required

Kane, T. (1999). *The Price of Admission: Rethinking how Americans Pay for College*.

Recommended

Hoxby, C. (ed.). (2004). *College Choice: The Economics of Where to Go, When to Go, and How to Pay for It*.

McPherson, M.S. & Schapiro, M.O., (1999). *Student Aid Game*.

Heller, D., (ed.). (2002). *Condition of Access*.

Most of the required readings for the course are freely available from a variety of electronic sources to University of Illinois students. After each citation listed in the syllabus is a code and a guide to the codes used in the syllabus is below.

PACKET – Article is included in course packet

ELECTRONIC – Available from JSTOR, NBER or e-journal

BOOK – Book chapter (only required for Kane book)

Incomplete grade

According to the Graduate College Handbook, an incomplete grade is A temporary notation assigned when the student has received an approved extension of time to complete requirements of the course. The instructor may authorize such extension of time for a graduate student regardless of the level of the course. A grade of Incomplete must be replaced by a letter grade no later than Reading Day of the next semester in which the student is registered or it automatically becomes an F grade. If the student does not enroll the following semester, in a graded course, the incomplete grade becomes an F after one year. Incomplete grades earned in the spring semester will not be converted to F by rule until the end of the following fall semester, whether or not the student registers for the summer term. Requests for extensions of time to complete the course requirements are made by petition to the Graduate College. A student will not be certified for a degree with an incomplete grade in their academic record.

- NR – Not reported. This temporary notation is automatically entered if an instructor does not report a grade by the deadline.
- NV – Not valid. This temporary notation is used when an instructor reports a grade in a mode that has not been approved for use with that course.
- S/U – Satisfactory-Unsatisfactory. A permanent notation used as a final grade only in courses (generally thesis research or seminar courses) approved for this grade mode.
- W – Withdrawal. A permanent notation signifying an approved withdrawal without credit, (see chapter VII.C of the Handbook for more information)

Course Schedule at a Glance

Date	Topic	Assignments
Week 1	Introduction	
Week 2	College choice	
Week 3	College persistence and completion	Discussion questions (Group A) due
Week 4	Returns to education <i>Two-year vs. four-year</i>	
Week 5	Returns to education <i>College quality, degree, and major</i>	Discussion questions (Group B) due
Week 6	Peer effects in higher education	
Week 7	Financial aid and the student <i>Need vs. merit aid</i>	
Week 8	Financial aid and the student <i>Loans vs. grants vs. other forms of aid</i>	Discussion questions (Group A) due
Week 9	Financial aid and the institution	Final paper proposal due
Week 10	Financing of higher education	
Week 11	Institutional effect on graduation rates	Discussion questions (Group B) due
Week 12	Faculty salary, productivity, and tenure	
Week 13	Higher education and economic growth	
Week 14	Higher education in the international context <i>Over-education</i>	Final paper due

WEEK 1

Introduction

Goldin, C., & Katz, L.F. (1999). The shaping of higher education: The formative years in the United States, 1890-1940. *Journal of Economic Perspectives*, 13, 37-62.

ELECTRONIC

Baum, S. & Payea, K. (2005). The benefits of higher education for individuals and society. *Education Pays 2004, Trends in Higher Education Series*, College Board.

ELECTRONIC

WEEK 2

College Choice

*Long, B. (2007). The contributions of economics to the study of college access and success. *Teachers College Record*, 109(10), 2367-2443.

ELECTRONIC

*Manski, C. & Wise, D. (1983). *College choice in America*, Boston, MA: Harvard University Press. Chapter 2.

PACKET

*Long, B. (2004). How have college decisions changed over time? An application of the conditional logistic choice model. *Journal of Econometrics*, 121(1), 271-296.

ELECTRONIC

Hagy, A.P., & Staniec, J. (2002). Immigrant status, race, and institutional choice in higher education. *Economics of Education Review*, 21(4), 381-392.

ELECTRONIC

Rouse, C.E. (1994). What to do after high school: The two-year versus four-year college enrollment decision. In Ronald G. Ehrenberg (ed.), *Choices & consequences: Contemporary policy issues in education*. Ithaca, NY: ILR Press.

PACKET

WEEK 3

College Persistence and Completion

DISCUSSION QUESTIONS (GROUP A): Do community colleges divert students from earning bachelor's degrees? What factors improve or inhibit college persistence and attainment?

*Rouse, C.E. (1995). Democratization or diversion? The effect of community colleges on educational attainment. *Journal of Business and Economic Statistics*, 13(2), 217-224.

ELECTRONIC

*Leigh, D.E. & Gill, A.M. (2003) Do community colleges really divert students from earning bachelor's degrees? *Economics of Education Review*, 22(1), 23-30.

ELECTRONIC

*Light, A. & Strayer, W. (2000). Determinants of college completion: School quality or student ability? *Journal of Human Resources*, 35(2), 299-332.

ELECTRONIC

*Turner, S. (2004). Going to college and finishing college. In C. Hoxby (ed), *College choice: The economics of where to go, when to go, and how to pay for it*. Chicago: University of Chicago Press.

PACKET

Kienzl, G., Alfonso, M., and Melguizo, T. (2007). The effect of local labor market conditions in the 1990s on the likelihood of community college students' persistence and attainment. *Research in Higher Education*, 48(7), 751-774.

ELECTRONIC

Reynolds, L. (2006). Where to attend? Estimates of the effect of beginning at a two-year college. Manuscript University of Michigan.

ELECTRONIC

WEEK 4

Returns to Postsecondary Education

Two-Year versus Four-Year

*Kane, T.J. & Rouse, C.E. (1995). Labor-market returns to two- and four-year college. *American Economic Review*, 85(3), 600-614.

ELECTRONIC

*Kane, T.J. & Rouse, C.E. (1999). The community college: Educating students at the margin between college and work. *Journal of Economic Perspectives*, 13(1), 63-84.

ELECTRONIC

*Grubb, W.N. (2002). Learning and earning in the middle, part I: National studies of pre-baccalaureate education. *Economics of Education Review*, 21(4), 299-321.

ELECTRONIC

Marcotte, D., Bailey, T., Borkoski, C., and Kienzl, G. (2005). The returns to education at community colleges: Evidence from the National Education Longitudinal Survey. *Education Evaluation and Policy Analysis*, 27(2), 157-175.

ELECTRONIC

WEEK 5

Returns to Postsecondary Education

College Quality, Degree, and Major

DISCUSSION QUESTIONS (GROUP B): Is a subbaccalaureate education economically viable? Does college quality matter

*Dale, S.B. & Krueger, A.B. (2002). Estimating the payoff to attending a more selective college: An application of selection on observables and unobservables. *Quarterly Journal of Economics*, 117(4), 1491-1528.

ELECTRONIC

*Brewer, D., Eide, E., & Ehrenberg, R.(1999). Does it pay to attend an elite private college? Cross cohort evidence on the effect of college quality on earnings. *Journal of Human Resources*, 24(1), 104-123.

ELECTRONIC

*Black, D.A. & Smith, J.A. (2003). How robust is the evidence on the effects of college quality? Evidence from matching. *Journal of Econometrics*, 121(1), 99-124.

ELECTRONIC

*Jaeger, D.A. & Page, M.E. (1996). Degrees matter: New evidence on sheepskin effects in the returns to education. *Review of Economics and Statistics*, 78(4), 733-740.

ELECTRONIC

Arcidiacono, P. (2004). Ability sorting and the returns to college major. *Journal of Econometrics*, 121(1), 343-375.

ELECTRONIC

Monks, J. (1999). The returns to individual and college characteristics: Evidence from the National Longitudinal Survey of Youth. *Economics of Education Review*, 19(3), 279-289.

ELECTRONIC

WEEK 6

Peer Effects in Higher Education

*Sacerdote, B. (2001). Peer effects with random assignment: Results for Dartmouth roommates. *Quarterly Journal of Economics*, 116(2), 681-704.

ELECTRONIC

*Winston, G. and Zimmerman, D. (2004). Peer effects in higher education. In *College choice: The economics of where to go, when to go, and how to pay for it*. (Caroline Hoxby, ed.). Chicago: University of Chicago Press.

ELECTRONIC

*Zimmerman, D. J. (2003). Peer effects in academic outcomes: Evidence from a natural experiment. *Review of Economics and Statistics*, 85(1), 9-23.

ELECTRONIC

WEEK 7

Financial Aid and the Student: Need vs. Merit Aid

*Kane, T. (1999). *Price of admission: Rethinking how Americans pay for college*. Washington D.C.: Brookings Institution Press. Pages 20-41.

BOOK

*Heller, D.E. (1997). Student price response in higher education: An update to Leslie and Brinkman. *Journal of Higher Education*, 68(6), 624-659.

ELECTRONIC

*Dynarski, S. (2004). The consequences of merit aid. *Working paper 9400*. Cambridge, MA: National Bureau of Economic Research.

ELECTRONIC

*Kane, T. J. (1996). Lessons from the largest school voucher program ever: Two decades of experience with Pell Grants. In Fuller, B., Elmore, R., & Orfield, G. (eds.) *Who chooses? Who loses? Culture, institutions and the unequal effects of school choice*. New York: Teachers College Press.

PACKET

Kane, T. J. (2003). A quasi-experimental estimate of the impact of financial aid on college-going. *Working paper 9703*. Cambridge, MA: National Bureau of Economic Research.
ELECTRONIC

Cornwell, C., Kyung, H., & Mustard, D. (2005). Student responses to merit retention rules. *Journal of Human Resources*, 40(4), 895-917.
ELECTRONIC

Farrell, P. and Kienzl, G. (forthcoming, 2008). The impact of state non-need, merit-based scholarship programs. *Education Finance and Policy*.
ELECTRONIC

WEEK 8

Financial Aid and the Student: Loans vs. Grants vs. Other Forms of Aid

DISCUSSION QUESTIONS (GROUP A): What is the effect of loans on college access? Why is it difficult to identify this effect? Have the stated goals of the tax credits been accomplished?

*Kane, T. (1999). *Price of admission: Rethinking how Americans pay for college*. Washington D.C.: Brookings Institution Press. Pages 41-50.
BOOK

*Baum, S. (2003). *The role of student loans in college access*. National Dialogue on Student Financial Aid. College Board.
ELECTRONIC

*Long, B. T. (2004). The impact of federal tax credits for higher education expenses. In C. Hoxby (ed.), *College choice: The economics of where to go, when to go, and how to pay for it*. Chicago: University of Chicago Press.
ELECTRONIC

Dynarski, S. (2002). Loans, liquidity and schooling decisions. Working paper.
ELECTRONIC

WEEK 9

Financial Aid and the Institution

*McPherson, M.S. & Schapiro, M.O., (1999). *Student aid game*. Princeton, NJ: Princeton University Press. Chapters 8 and 9.
PACKET

*Long, B. (2004). How do financial aid policies affect colleges? The institutional impact of the Georgia HOPE scholarship. *Journal of Human Resources*, 39(3), 1045-1066.
ELECTRONIC

*Kane, T. (1999). *Price of admission: Rethinking how Americans pay for college*. Washington D.C.: Brookings Institution Press. Pages 77-84.
BOOK

Martin, R. (2002). Tuition discounting: theory and evidence. *Economics of Education Review*, 21(2), 125-136.
ELECTRONIC

WEEK 10

Financing of Higher Education

*Kane, T. (1999). *Price of admission: Rethinking how Americans pay for college*. Pages 55-77.
BOOK

*Kane, T. J., Orszag, P. R., & Gunter, D. L. (2003). State fiscal constraints and higher education spending: The role of Medicaid and the business cycle. Washington, DC: Brookings Institution.
ELECTRONIC

*Rizzo, Michael. (2006). State preferences for higher education spending: A panel data analysis of state preferences for funding higher education, 1977-2001. In *What is happening to public higher education?* (Ronald Ehrenberg, ed.). Westport, CT: ACE/Praeger Series on Higher Education.
ELECTRONIC

Long, B. T. (2004). Does the format of an aid program matter? The effect of in-kind tuition subsidies. *Review of Economics and Statistics*, 86(3), 767-782.
ELECTRONIC

WEEK 11

Institutional Effect on Graduation Rates

DISCUSSION QUESTIONS (GROUP B): What factors explain institutional graduation rates? How can postsecondary institutions increase their graduation rates?

*Scott, M., Bailey, T., and Kienzl, G. (2006). Relative success? Determinants of college graduation rates in public and private colleges in the U.S. *Research in Higher Education*, 47(3), 247-277.
ELECTRONIC

*Bailey, T., Calcagno, J.C., Jenkins, D., Leinbach, D. and Kienzl G. (2006). Is student-right-to know all you should know? An analysis of community college graduation rates. *Research in Higher Education*, 47(5), 491-519.
ELECTRONIC

*Archibald, R.B. and Feldman, D.H. (2008). Graduation rates and accountability: Regressions versus production frontiers. *Research in Higher Education*, 49(1), 80-100.
ELECTRONIC

*Bailey, T., Calcagno, J.C., Jenkins, D., Leinbach, D. and Kienzl G. (in press, 2008). Community college student success: What institutional characteristics make a difference? *Economics of Education Review*.
ELECTRONIC

Titus, M. (2006). Understanding the influence of financial context of institutions on student persistence at 4-year colleges and universities: A multilevel approach. *Journal of Higher Education*, 77(2), 353-375.
ELECTRONIC

WEEK 12

Faculty Salary, Productivity, and Tenure

*Monks, J. & Robinson, M. (2000). Gender and racial earnings differentials in academic labor markets. *Economic Inquiry*, 38(4), 662–671.

ELECTRONIC

*Monks, J. & Robinson, M. (2001). The returns to seniority in academic labor markets. *Journal of Labor Research*, 22(2), 415-427.

ELECTRONIC

*Bratsberg, B., Ragan, J.F., & Warren, J.T. (2003). Negative returns to seniority: New evidence in academic markets. *Industrial and Labor Relations Review*, 56(2), 306-323.

ELECTRONIC

*McPherson, M.S. & Schapiro, M.O. (1999). Tenure issues in higher education. *The Journal of Economic Perspectives*, 13(1), 85-98.

ELECTRONIC

Ransom, M.R. (1993). Seniority and monopsony in the academic labor market. *The American Economic Review*, 83(1), 221-233.

ELECTRONIC

Hallock, K.F. (1995). Seniority and monopsony in the academic labor market: Comment. *The American Economic Review*, 85(3), 654-657.

ELECTRONIC

WEEK 13

Higher Education and Economic Growth

TBA

WEEK 14

Higher Education in the International Context

Over-education

*Hartog, J. (2000). Over-education and earnings: Where are we, where should we go? *Economics of Education Review*, 19(2), 131-147.

ELECTRONIC

*Groot, W. & Maassen van den Brink, H. (2000). Overeducation in the labor market: A meta-analysis. *Economics of Education Review*, 19(2), 149-158.

ELECTRONIC

*Dolton, P. & Vignoles, A. (2000). The incidence and effect of overeducation in the U.K. graduate labour market. *Economics of Education Review*, 19(2), 179-198.

ELECTRONIC