

ED 265A

ECONOMICS OF EDUCATION

This course presents basic microeconomic theory with a series of applications to education. In contrast to the more conventional approach, which presents a series of unrelated topics in the economics of education, my purpose is first to stress the theoretical coherence of microeconomics, and then to clarify how particular topics within education can be examined through microeconomic theory.

The goals of the course are to enable students (1) to understand economic theories, models, and logic; (2) to be able to apply these perspectives to particular issues in education, both problems of practice and policy issues; (3) to understand the basic results in the economics of education; (4) to be able to critique standard economic analyses; and (5) to understand the ways in which economic logic is used and abused in ordinary life and language.

Many issues in educational practice, administration, policy, and research are unavoidably economic. In addition, knowledge of economic analysis is useful in understanding a great range of contemporary debate, both in education and in many other areas. Finally, there's been a world-wide trend toward free-market economies and the use of market-like mechanisms, in education and many other areas of social policy; therefore it's increasingly necessary to be facile with economic analysis, for defensive reasons if nothing else.

I teach this course with algebra and graphical displays but without calculus. An understanding of regression methods is helpful, though none of the readings requires knowledge of regression. There's an appendix in the main text which explains regression.

Classes: Classes are a combination of lecture and discussion. Class discussions usually focus on applications of microeconomics to education (and their limitations). Questions from students about the assumptions and the implications of economic models are particularly helpful in clarifying and elaborating microeconomic theory. In order to participate actively in the discussions, students should complete the assigned readings prior to class, and should come to class with questions about the readings, the models, or the application of these models to education.

Readings: The text for the course is Robert Pindyck and Daniel Rubinfeld, Microeconomics, Fifth Edition (New York: MacMillan, 2001), which is available in the ASUC bookstore. The text has the advantage, compared to most microeconomic texts, of providing a number of public sector examples. The text should be used to reinforce and supplement the theoretical material from lectures.

The applications in education are contained in a series of articles and chapters, in a reader from Copy Central (48 Shattuck Sq., at University and Shattuck). Some articles are starred, indicating that they are recommended but not required.

For those who want a math brush-up, several copies of the first chapters of R.G.D. Allen's *Mathematical Analysis for Economists* are on reserve. This is quite a sophisticated treatment of the math underlying economics.

Teaching Assistant:

The teaching assistant in the course is Shelby McCulley, a graduate student in the Graduate School of Public Policy (mcculley@uclink4). She will have a mailbox outside of the POME office (Tolman 3653) and will establish a review session each week plus some office hours, at times to be determined.

Course requirements:

(1) A course paper, on a topic of the student's choice related to some aspect of the economics of education, will be due on May 6; this will count 30% of the grade. An outline of the paper is due on March 18, just before spring break.

(2) A mid-term exam in March, counting 15%, and a final examination in May, counting 25%, are also required. Both will be take-home exams. Like the problem sets, the exams will ask you to apply economic concepts and theory to educational issues.

(3) Four problem sets will be required, roughly one every two weeks; three of these will each count 10% of the final grade, so the problem sets as a group will contribute 30% of the final grade. The fourth problem set, on benefit-cost analysis, is not graded. The problem sets may be done cooperatively. Exams and papers may not be written cooperatively.

1. Introduction

Jan. 28

Pindyck and Rubinfeld, Ch. 1

Henry Levin, "Mapping the Economics of Education: An Introduction," *Educational Researcher*, May 1989.

John Tierney, "Betting the Planet," *New York Times Magazine*, 1990.

2. Consumption Theory and Consumer Demand

Jan. 28, Feb. 4

Pindyck and Rubinfeld, Ch. 3, 4

3. Applications: Demand for Higher Education; Financial Aid; Grants-in-Aid and School Finance

Feb. 11

*Jonathan Kozol, *Savage Inequalities*, Ch. 3, "The Savage Inequalities of Public Education in New York".

Reread Pindyck and Rubinfeld, pp. 76-78.

Allan Odden and Lawrence Picus, *School Finance: A Policy Perspective*, 2nd edition, Ch. 3.4, "Intergovernmental Fiscal Relations"; Ch. 4, "School Finance Structures", Sections 1 and 2.

Lawrence Gladieux, "Bright Hopes and Paper Promises: The Changing Picture of Student Aid Policies in the 90s", *College Board Review*, Winter 1992/93.

4. Uncertainty

Feb. 25

Pindyck and Rubinfeld, Ch. 5 (except 5.4)

Applications: Loans to students; the model of rational choice and the choice of occupations

5. The Theory of Production

Feb. 25

Pindyck and Rubinfeld, Ch. 6, 7

6. **Applications: The Role of Education in Economic Growth and Development; Educational Production Functions; Cost Functions and Economies of Scale.**

March

4

Elchanan Cohn and Terry Geske, *The Economics of Education*, Ch. 6, "Education and Economic Growth".

* Philip Foster, "The Contribution of Education to Development", in George Psacharopoulos, *Economics of Education Research and Studies*.

Eric Hanushek, "The Impact of Differential Expenditures on School Performance", Educational Researcher, May 1989.

* Larry Hedges, Richard Laine, and Rob Greenwald, "Does Money Matter?", Educational Researcher April 1994; and the exchange with Eric Hanushek, Educational Researcher, May 1994.

*W. Norton Grubb and Luis Huerta, *Straw Into Gold, Resources into Results: Spinning out the Implications of the "New" School Finance*. PACE Working Paper Series 01-1, April 2001.

*David Hopkins, "The Higher Education Production Function: Theoretical Foundations and Empirical Findings," in Stephen Hoenack and Eileen Collins, The Economics of American Universities (SUNY Press, 1990).

Henry Levin et al., "Cost-Effectiveness of Computer-Assisted Instruction", Evaluation Review, February 1987.

OR

Henry Levin, "A Cost-Effectiveness Analysis of Teacher Selection", Journal of Human Resources, Winter 1970.

Allan Odden, "The Costs of Sustaining Educational Change through Comprehensive School Reform", *Phi Delta Kappan* Feb. 2000.

D.W. Verry, "Educational Cost Functions", in George Psacharopoulos, Economics of Education Research and Studies.

OR

Paul Brinkman, "Higher Education Cost Functions," in Hoenack and Collins, op. cit.

*Stephen Hoenack, "An Economist's Perspective on Costs within Higher Education Institutions," in Hoenack and Collins, op. cit.

7. **Production and Supply Functions**

March 11

Pindyck and Rubinfeld, Ch. 8

8. Demand and Supply Analysis **March 11**

Pindyck and Rubinfeld, Ch. 2, Ch. 9.

7. Applications **March 18**

David Stern, "Compensation for Teachers", Review of Research in Education, 1985.

Richard Freeman, The Market for College-Trained Manpower, Ch. 2, "Models of the Labor and Education Markets".

*Theodore Schultz, "The Value of the Ability to Deal with Disequilibria", Journal of Economic Literature, Sept. 1975.

8. Capital and Human Capital Theory **April 1**

Pindyck and Rubinfeld, Ch. 15 (section 15.7 optional)

Adam Smith, The Wealth of Nations, "Inequalities Arising from the Nature of Employments Themselves", pp. 100-102.

"Needed: Human Capital", Business Week, Sept. 19, 1988.

David Stern, "Market Failure in Firm-Based Education and Training", in M. Carnoy, *International Encyclopedia of Economics of Education*.

Gary Becker, Human Capital, Ch. 2, "Investment in Human Capital: Effects on Earnings".

George Psacharopoulos, "Returns to Education: A Further International Update and Implications", Journal of Human Resources, Fall 1985.

Larry Leslie and Paul Brinkman, The Economic Value of Higher Education, Ch. 1, "Introduction and Summary".

OR

M. Woodhall, "Earnings and Education", in George Psacharopoulos, Economics of Education Research and Studies.

*Ernest Pascarella and Patrick Terenzini, How College Affects Students, Ch. 11, "Economic Benefits of College."

John Bishop, "Why the Apathy in American High Schools?", Educational Researcher, Jan.-Feb. 1989.

"Business Groups Back System to Measure Skills of Graduates", Education Week, Nov. 15, 1989.

* Victor Fuchs, "Are Americans Underinvesting in Children?", in David Blankenhorn, Steven Bayme, Jean Bethke Elshtain, Rebuilding the Nest: A New Commitment to the American Family.

*Jonathan Rauch, "Kids as Capital", Atlantic Monthly, Aug. 1989.

11. Critiques of Human Capital; Alternative Theories of Labor Markets **April 8**

Ronald Dore, The Diploma Disease, Ch. 1, "The Problem Elaborated".

P.R. Winkler, "Screening Models and Education", in George Psacharopoulos, Economics and Education: Research and Studies.

*Pindyck and Rubinfeld, Ch. 17.1, "Quality Uncertainty and the Market for Lemons", Ch. 17.2, "Market Signaling".

*Michael Spence, "Job Market Signaling", Quarterly Journal of Economics, Aug. 1973.

V. Lane Rawlins and Lloyd Ulman, "The Utilization of College-Trained Manpower in the U.S.", in Margaret Gordon, Higher Education and the Labor Market.

Lester Thurow, "Education and Economic Equality", The Public Interest, Summer 1972.

R. McNabb, "Labor Market Theories and Education", in George Psacharopoulos, Economics of Education Research and Studies.

* Mark Blaug, "Where Are We Now in the Economics of Education?", Journal of Human Resources, 1985.

* W. Norton Grubb and Marvin Lazerson, Broken Promises: How Americans Fail Their Children, "Instrumental Conceptions of Children", pp. 51-60.

12. Efficiency: Efficiency in Education, Choice, and Vouchers **April 15**

Pindyck and Rubinfeld, Ch. 16. (This is a complex chapter, but it's central to why economists believe in markets.)

Milton Friedman, Capitalism and Freedom, Ch. 6, "The Role of the Government in Education".

Henry Levin, "Educational Vouchers and Social Policy", in James Guthrie, School Finance: Policies and Practices.

R. Elmore and B. Fuller, "Empirical Research on Educational Choice", in B. Fuller, R. Elmore, and G Orfield, Who Chooses? Who Loses?

OR

Jeffrey Henig and Stephen Sugarman, "The Nature and Extent of School Choice", in S. Sugarman and F. Kemerer, *School Choice and Social Controversy*.

* Mary Anne Raywid, "Public Choice, Yes; Vouchers, No!", Phi Delta Kappan, June 1987.

*James Guthrie et al., "Enhancing Educational Efficiency", in School Finance and Education Policy.

* P.W. Verry, "University Internal Efficiency", in George Psacharopoulos, Economics of Education Research and Studies.

*Alan Wolfe, "The Dubious Triumph of Economic Man," Ch. 1 of Whose Keeper? Social Science and Moral Obligation (University of CA Press, 1989).

13. Other Market-Like Mechanisms in Educational Institutions April 22

N. Finkelstein and W.N. Grubb, "Making Sense of Education and Training Markets: Lessons from England", *American Educational Research Journal*, Fall 2000.

Gordon Winston and David Zimmerman, "Where is Aggressive Price Competition Taking Higher Education?", *Change*, July / August 2000.

Richard Murnane and David Cohen, "Merit Pay and the Evaluation Problem", *Harvard Educational Review* February 1986.

OR

W. Lee Hansen, "Merit Pay in Structured and Unstructured Salary Systems", Academe, Nov/Dec 1988.

*Wade Nelson, "Timequake Alert: Why Payment by Results in the Worst 'New' Reform to Shake the Educational World, Again and Again", *Phi Delta Kappan* Jan. 2001.

Fred Fischer, "Graduation-Contingent Student Aid", Change, Nov-Dec 1987.

*Charles Karelis, "Price as a Lever for Reform", Change, March / April 1989.

*Charles Manski, "Schooling as Experimentation: A Reappraisal of the College Dropout Phenomenon", *Economics of Education Review*, Vol. 8(4), 1989.

* Charles Tiebout, "A Pure Theory of Local Expenditures", Journal of Political Economy, October 1956.

14. Public Goods Theory and Applications to Education April 29

Garrett Hardin, "The Tragedy of the Commons", Science, December 14, 1968.

Pindyck and Rubinfeld, Ch. 18.

W.W. McMahan, "Externalities in Education", in George Psacharopoulos, Economics and Education: Research and Studies

Henry Levin, "Education as a Public and Private Good", Journal of Policy Analysis and Management, Summer 1987.

* Fred Fisher, "State Financing of Higher Education", Change, Jan/Feb 1980.

15. Cost-Benefit Analysis

May 6

Edward Gramlich, A Guide to Benefit-Cost Analysis, Ch. 4, 5, 6.

Aaron Wildavsky, "The Political Economy of Efficiency: Cost Benefit Analysis, Systems Analysis, and Program Budgeting", Public Administration Review, December 1966.

* Steven Kelman, "Cost-Benefit Analysis: An Ethical Critique", Regulation, Jan/Feb 1981.

15. Applications

May 13

Edward Gramlich, "Human Investment Programs", Ch. 9 of A Guide to Benefit-Cost Analysis

David Stern et al., "Benefits and Costs of Dropout Prevention in a High school Program Combining Academic and Vocational Education", *Educational Evaluation and Policy Analysis*, Winter 1989.

Steven Barnett, "Cost-Benefit Analysis", in L. Schweinhart, H. Barnes, and D. Weikart, *Significant Benefits: The High/Scope Perry Preschool Program Through Age 27* (1993).

W.N. Grubb, "Cost-Benefit Analyses of Job Training Programs", from *Learning to Work: The Case for Reintegrating Job Training and Education*.