PBAF 573:
Educational Policy & Social Inequality

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Week 1

Why Are Educational Quality/Inequality Important, and How Much Exists?
The Economic Returns to School Quality (Card & Krueger)

• “Economist view”
  – Schooling as investment
  – Earnings as ultimate yardstick

• Strong correlation between years of schooling and earnings, but “unobservables”
  – Is schooling human capital accumulation or a screen? Causality?
    • 3 methods to estimate the relationship
Economic Returns to School Quality (Murnane et al.)

- Change in importance of cognitive skills in wage determination
- Econometric models on 2 cohorts of students (NLS72 & HSB)
- Growth in returns to years of schooling and cognitive performance
  - Mostly cognitive performance (for women)
Murnane et al. Estimates

<table>
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<tr>
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<th>NLS72</th>
<th>HSB</th>
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<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>Years of schooling</td>
<td>.013</td>
<td>.037</td>
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<tr>
<td>Mathematics Score</td>
<td>.004</td>
<td>.009</td>
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How Much Inequality Exists Today?

- African-American’s typically score below 75 percent of American whites
  - Significant overlap of distributions (see p. 2 of BWTSG)
  - Some narrowing of the gap over time & under certain conditions
  - This has translated into significant earnings gains and a narrowing of the earnings gap
Murphy and Welch

• Document a dramatic rise (since 1979) in the college wage premium (from 32% to 70% in 1986)
• Explore the theory of “over” and “under” education
• Explain the rise in the college wage premium:
  – Combination of increase college wages, and falling HS wages
  – Changes in the demand for and supply of college graduates
  – Changes in structure of the economy
Wolfe and Zuvekas

• Focus on non-market effects of schooling
  – Health, schooling of offspring, consumer choices, out of wedlock births

• Review of empirical studies, but many may suffer from omitted variables bias

• Implicit price of non-market goods
  – \( P_{sch} = \left( \frac{MP_{sch}}{MP_x} \right) \times (P_x) \)