

Dale and Krueger 2002 – Submit PDF through Canvas before Tue, Sep 3, 2019, 14.45am

Read up to up to page 1494. Keep your answers concise.

1. What economic theory is being addressed in this paper that makes it also relevant to those of us not living in the US?

They try to test whether or not a more selective university has a positive effect on future earnings. This is relevant for us outside the US because there are differences in selectivity between universities in the EU as well.

2. What is the key dependent variable? (define exactly)

The log of the income of a student after graduating.

3. What is the key independent variable? (define exactly)

The selectivity of a college.

4. Consider the follow quote from Dale and Krueger:

“[I]t is possible that our estimates are affected by students sorting into the colleges they attended from their set of options based on their unobserved earnings potential. About 35 percent of the students in each cohort in our sample did not attend the most selective school to which they were admitted. Our analysis indicates that students who were more likely to attend the most selective school to which they were admitted had observable characteristics that are associated with higher earnings potential.”

If unobserved characteristics bear a similar relationship to college choice, then would their estimates of the payoff from attending a selective college be biased upward or downward?

They would be biased upwards. As the paper shows, whether or not you attend a more selective university doesn't matter too much for your future earnings but the unobserved characteristics do. They would therefore estimate their future earnings to be higher due to the university being selective rather than they themselves having good characteristics and so the payoff from attending a selective college would be estimate too high.

5. Dale and Krueger find “that there is a higher payoff to attending a more expensive school for children from low-income families”. What mechanism explaining the difference between low- and high-income families could be at work here?

People from a high-income family already have the social and cultural capital that are enclosed in the unobserved characteristics and have a big influence on your future earnings. The persons from the low-income family are more likely to have a lower social and cultural capital. They can profit therefore more from the new

connections and culture are a highly selective university than a person from a high-income family

6. Put yourself in the position of someone considering what college to go to. You have been accepted at two very good colleges in the top range, one private and one public. You believe the results of Dale and Krueger 2002 to be true. You also know that tuition at the private college is much higher than at the public college. Why would you ever choose to attend the private college?

Besides income there are other factors that can play a role in going to a private college. The facilities might be better, the professors more inspiring and the extracurricular options might be greater. Not everything is measured in income.