**Term Paper Question:**

Are Student Loans Worth it? What are the financial outcomes for students who borrow to go to college?

**What do I already know about the topic?**

For the past few years, student loans have received a lot of attention in the media.[[1]](#footnote-1) According to these news articles and magazines, student debts are a burden and a symptom of many problems in higher education, such as low public funding of colleges and high college attendance costs. [[2]](#footnote-2)

One possible explanation for the increase in costs is that the increase in demand for a college education could be raising the costs of college. [[3]](#footnote-3) Per the National Center of Education Statistics, the average cost of college for full-time undergraduate students has more than doubled since 1985.[[4]](#footnote-4) Both trends, the costs for college and increased demand for college, are correlated with the increase in outstanding debt for direct loans.[[5]](#footnote-5)

Findings on the impact of student loans on students’ financials and lifestyles after graduation tell a story of struggle and general dissatisfaction. In its 2016 nationally representative survey, the Consumer Financial Protection Bureau (CFPB) reported that more than half of Americans with student loan debt (51%) had a problem making a student loan monthly payment at least once. Moreover, forty-four percent said they "cut back on day-to-day living expenses," while more than one-third (37%) said they "delayed saving for retirement or other financial goals." [[6]](#footnote-6)

Given the problems, some have begun to question the value of higher education. For instance, Dr. Bryan Caplan of George Mason University argues in “The Case Against Education” that the role of education is to certify a student’s intelligence and work ethic, not to increase people’s human capital.

To finance higher education, students can take out either private or government student loans, and it is interesting to think about how students come to decide on which loans to use. [[7]](#footnote-7) Rational students considering the government loans will consider whether or not loans are subsidized, and how generous loan forgiveness programs, grace periods, deferment conditions are. These students will also know of private loans and for-profit schools that offer more merit-based scholarships to avoid debt.[[8]](#footnote-8) Finally, rational students will choose to go to college only if both the financial and effort costs will be less than the increase in wages if he/she did not go to college. Therefore, information (or lack thereof) plays a significant role in people’s decisions to take out loans which determines how much debt one might have to repay after graduation.

**Literature to look at:**

Most of this paper's literature review will be from peer-reviewed economics journals that focus on financial outcomes such as life-time earnings and incomes for people who used student loans to earn a college degree. Ideally, the literature should compare the financial outcomes for students in debt to students not in debt after controlling for variables like socioeconomic status, race, gender, degree, college attended, and much more.

I intend to begin this paper by looking at literature that focuses on what types of students and parents choose student loans, and what factors affect their willingness to borrow. After that, I intend to look at differences in labor market outcomes for people with and without student loans.[[9]](#footnote-9) Most of the financial analysis will focus on repayment burdens, net worth, retirement savings, and other measures of financial well-being. Finally, I want to see how students of different backgrounds perceive their student loans. I expect perceptions of student loans and outcomes to differ among majors, race, and socioeconomic status.

Considering that student loans’ recipients have to navigate several rules and regulations, I intend to complement this study with law review articles to further explore the role of information or the effects of certain policy changes or changes in essential government programs that offer student loans.

**Appendix**

**A picture containing text, map

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A close up of a map

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1. <https://www.newyorker.com/magazine/2019/09/09/student-debt-is-transforming-the-american-family> [↑](#footnote-ref-1)
2. <https://hbr.org/2019/09/what-will-it-take-to-solve-the-student-loan-crisis> [↑](#footnote-ref-2)
3. <https://files.eric.ed.gov/fulltext/ED562849.pdf>

   * “Between 2002 and 2012, the annual number of applications submitted by first-time, first-year degree-seeking students increased across the college selectivity spectrum.”

   It is important to note that the increase in admissions did not keep up with increased applications volume in this time-period [↑](#footnote-ref-3)
4. <https://nces.ed.gov/fastfacts/display.asp?id=76> [↑](#footnote-ref-4)
5. <https://studentaid.gov/data-center/student/portfolio>

   I examined the Federal Student Aid Portfolio Summary. Personal Analysis. See the PNG files in the appendix. [↑](#footnote-ref-5)
6. <https://www.consumerreports.org/student-loan-debt-crisis/> [↑](#footnote-ref-6)
7. What I am about to assert is not a formal model, but personal thoughts. [↑](#footnote-ref-7)
8. Menges, K., & Leonhard, C. (2016). Factors That Affect Willingness to Borrow Student Loans among Community College Students. Journal of Student Financial Aid, 46(2), 1-15.

   Booij, A., Leuven, E., & Oosterbeek, H. (2012). The role of information in the take-up of student loans. Economics of

   Education Review, 31(1), 33-44. [↑](#footnote-ref-8)
9. Ideal literature that explores this comparison will control for school quality, majors, whether or not someone earned a bachelor's or a master's, and ability (if possible). [↑](#footnote-ref-9)