

ECONOMICS OF EDUCATION

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Financing higher education

The rationale for public support

- Externality argument – to spur private demand for higher education
 - in general
 - in certain types of education
- Equity reasons (to help able but poor students)

Institutional versus student aid

Student aid

- Giving students more choice as to where their subsidy could be spent.
- Providing a market type process of accountability – institutions that do not provide quality education would lose enrollments.
- Minimizing the interference of the state in the internal affairs of the institutions.

Institutional aid

- Students are not competent to make rational choices.
- With institutional funding state could direct the development of academic and other programs.

Types of institutional support

- Unconditional support
- Formula funding
 - A) input based (number of students etc.)
 - B) output based (number of graduates)

Loans versus grants

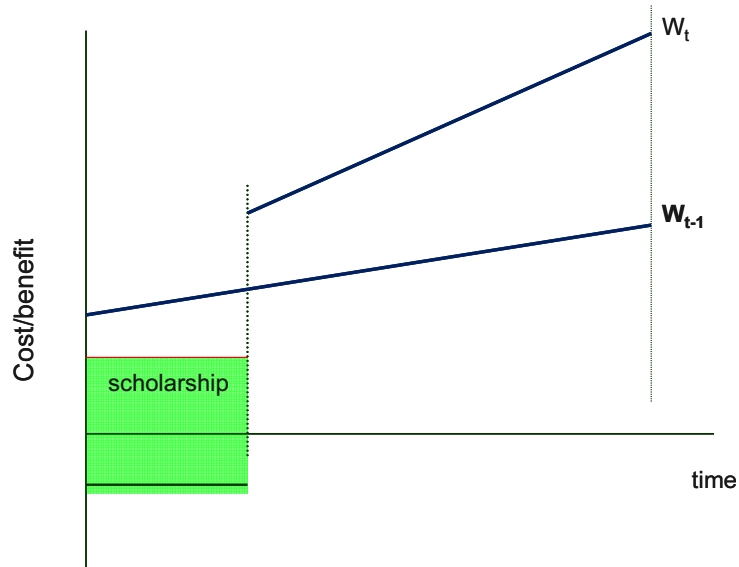
Loan

- High private returns to higher education
- Less burden on public funds
- More equitable since those who themselves benefit from higher education will contribute to the costs of their education

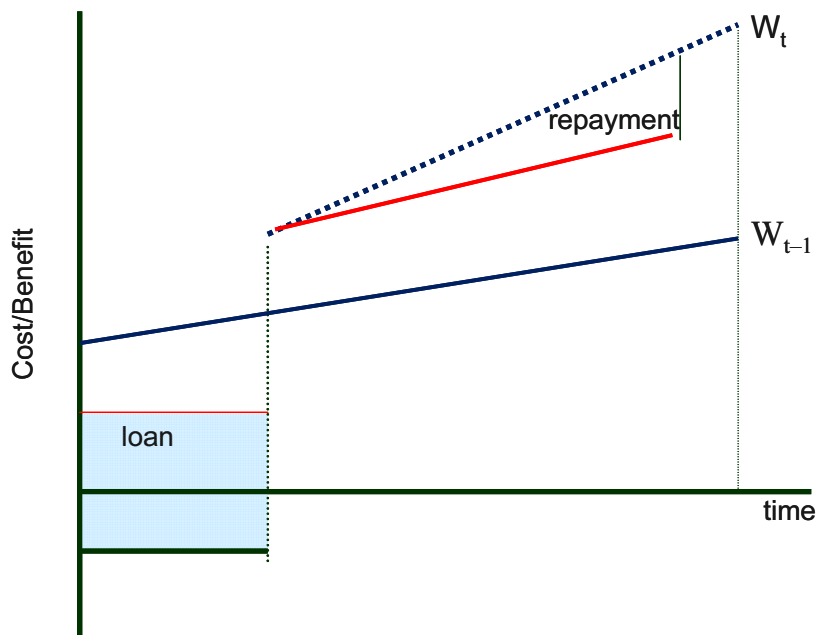
Grants

- Loans are less effective in encouraging low-income students because of fear of the debt

Scholarships/grants



Student loans



Graduate tax

