John F. Kennedy School of Government

HLE-227

Economics of Education

Fall 2000

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Tuesday 11:30-12:30
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OVERVIEW

This course explores the economics of current issues in education. A key goal of the course is to train students to be critical and informed consumers of economic research and policy evaluation. This will involve honing skills of economic and statistical reasoning. While the focus of the course is on education policy, the analytical skills built while examining these issues will be applicable to any professional setting in which students produce or consume empirical policy research.

We will explore policies that hope to improve the current system of education, such as education finance reform, the movement towards testing and standards, and class size reduction. We will also consider policies that aim to replace the current system with a market-based structure, such as school choice, charter schools, and vouchers. And we'll spend some time examining historical trends in earning and earnings inequality, with an eye to understanding how these trends reflect shifts in the supply of and demand for educated workers.

Microeconomic theory will frame our empirical exploration of all of these topics. We will review the state of the empirical debate on, for example: the impact of vouchers on student outcomes; the effect of reducing class size on test scores; and whether education finance reform has reduced inequality in schools' financial resources.

AUDIENCE

The prerequisites for the course are fluency in intermediate microeconomics and statistical analysis. API-202 and API-102 or their equivalents are sufficient preparation. MPP2s are therefore the natural audience for the course, but qualified MC-MPAs are welcome with the permission of the instructor.

EXPECTATIONS

Class members must read the assigned works closely and actively in order to absorb the material. Class participation counts heavily toward the final grade.

To further close reading and class participation, each student will be designated the class "expert" for three class sessions. This will involve preparing a three-to-four page critical review of the day's reading, giving a brief oral presentation, and clarifying questions as they arise during the class discussion.

Further, students will write a half-page essay reacting to the readings for each class. These will be due the day before class (via the course website) in order to allow me to plan the class discussion around your reactions.

There will be a take-home exam during reading period.

Roughly equal weight in the final grade will be given to 1) performance as class "expert" 2) class participation and the reaction essays and 3) the take-home exam.

COURSE MATERIALS

There is no textbook. The text for the course will consist of articles and book chapters and will be available in the form of a course packet at the Course Materials Office.

You should keep up with developments in education policy. You can do this by scanning the newspapers or by subscribing to a clipping service. The Education Commission of the States prepares free e-mailed press clippings on education issues. The briefings will be sent to you daily once you send to e-clips@ecs.org an empty e-mail with the word "subscribe" (no quotation marks) in the subject line. Scan the articles on the same day that you get the e-mail, as the links often are not valid for more than a day.

Part I: Overview

Are Schools Broken? Economic and Political Perspectives

Hanushek, Eric (1998). “Conclusions and Controversies about the Effectiveness of School Resources.” *Economic Policy Review* (March), pp. 11-27. [16 pp]

Krueger, Alan (1998). “Reassessing the View That American Schools Are Broken.” *Economic Policy Review* (March), pp. 29-43. [14 pp]

U.S. Department of Education (1999). *The Condition of Education* (Washington, DC: Government Printing Office), pp. 2-26. [24 pp]

Colvin, Richard (2000). “Gore and Bush Prescribe Differing Education Cures.” *Los Angeles Times* (August 27).

Browse through the presidential candidates’ education platforms at:

> http://www.bush2000.com/issues.asp?FormMode=FullText&ID=2
>
> http://www.gore2000.org/agenda/bluebook/contents.html

Part II: The Economic Value of Education

Rising Inequality and the College Premium

Levy, Frank and Richard Murnane (1992). “US Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations.” *Journal of Economic Literature* 30: (September), pp. 1333-81. [48 pp]

Murnane, Richard, John Willett and Frank Levy (1996). “The Growing Importance of Cognitive Skills in Wage Determination.” *Review of Economics and Statistics*, pp. 251-266. [15 pp]

Why Is the College Premium Rising? Part I

Krueger, Alan (1993). “How Computers Have Changed the Wage Structure: Evidence from Microdata, 1984-1989.” *Quarterly Journal of Economics* 108:1 (February), pp. 33-60. [27 pp]

DiNardo, John and Jorn-Steffen Pischke (1997). “The Returns to Computer Use Revisited: Have Pencils Changed the Wage Structure, Too?” *Quarterly Journal of Economics* 112:1 (February), pp. 291-303. [12 pp.]

Why Is the College Premium Rising? Part II

Autor, David, Lawrence Katz and Alan Krueger (1998). “Computing Inequality: Have Computers Changed the Labor Market?” *Quarterly Journal of Economics* 113:4 (November), pp. 1169-1214. [45 pp]

Autor, David, Frank Levy and Richard Murnane (2000). “Upstairs, Downstairs: Computer-Skill Complementarity and Computer-Labor Substitution on Two Floors of a Large Bank.” Unpublished working paper (August). [26 pp]

What is the Economic Meaning of Education? Signaling vs. Human Capital

Borjas, George (1996). “Human Capital, Education and Earnings, “ Chapter 7 in *Labor Economics* (McGraw Hill), pp. 220-49. [29 pp]

Tyler, Murnane and Willett (2000). “Estimating the Labor Market Signaling Value of the GED.” *Quarterly Journal of Economics* 115:2 (May), pp. 431-68. [37 pp]

The Return to Education: Instrumental Variables Estimates

Angrist, Joshua and Alan Krueger (1991). “Does Compulsory Schooling Attendance Affect Schooling and Earnings?” *Quarterly Journal of Economics* 106:4, pp. 979-1014. [35 pp]

The Return to Education: Twins Estimates

Ashenfelter, Orley and Cecilia Rouse (1998). “Income, Schooling and Ability: Evidence from a New Sample of Identical Twins.” *Quarterly Journal of Economics* 113:1 (February), pp. 979-1014. [35 pp]

Part III: Elementary and Secondary Education

Why Does Government Provide Education?

Friedman, Milton (1962), “The Role of Government in Education,” in *Capitalism and Freedom*, pp. 85-107. [22 pp.]

Poterba, James (1996). “Government Intervention in the Markets for Education and Health Care,” in *Individual and Social Responsibility* Victor Fuchs, editor (Cambridge, MA: National Bureau of Economic Research), pp. 277-307. [30 pp]

Improving the System: Does Money Matter?

Burtless, Gary (1996). “Introduction and Summary,” in *Does Money Matter?* Gary Burtless, editor (Washington, DC: Brookings), pp. 1-42 [42 pp]

Hanushek, Eric (1996). “Measuring Investment In Education.” *Journal of Economic Perspectives* 10:4 (Fall), pp. 9-30. [21 pp]

Improving the System: Inputs and Outcomes

Card, David and Alan Krueger (1996). in *Does Money Matter?* Gary Burtless, editor (Washington, DC: Brookings), pp. 97-140. [43 pp]

Improving the System: The Effect of Class Size – Non-Experimental Estimates

Angrist, Joshua and Victor Lavy (1999). “Using Maimonides’ Rule to Estimate the Effect of Class Size on Scholastic Achievement.” *Quarterly Journal of Economics* 114:2 (May), pp.533-575. [42 pp.]

Improving the System: The Effect of Class Size – Experimental Estimates

Krueger, Alan (1999). “Experimental Estimates of Education Production Functions.” *Quarterly Journal of Economics* 114:2 (May), pp.497-532. [35 pp]

Krueger, Alan and Diane Whitmore (2000). “The Effect of Attending a Small Class in the Early Grades on College Test-Taking and Middle School Test Results: Evidence from Project STAR.” National Bureau of Economic Research Working Paper 7656 (April).

Improving the System: The Standards Movement

Ladd, Helen (1996). “Introduction”, in Holding Schools Accountable, Helen Ladd, editor, pp. 1-19. [19 pp]

Clotfelter, Charles and Helen Ladd (1996). “Chapter 1,” in *Holding Schools Accountable*, Helen Ladd, editor, pp. 23-63. [40 pp]

Hanushek, Eric (1996). “Comment,” in *Holding Schools Accountable*, Helen Ladd, editor, pp. 128-36. [8 pp]

Meyer, Robert (1996). “Comment,” in *Holding Schools Accountable*, Helen Ladd, editor, pp. 137-45. [8 pp]

Improving the System: Education Finance Reform

Kozol, Jonathan (1992). Chapter 3 in *Savage Inequalities* (Crown Publishers: New York).

Hoxby, Caroline (1996). "Are Efficiency and Equity in School Finance Substitutes of Complements?" *Journal of Economic Perspectives* 10:4 (Fall), pp. 51-72. [21 pp]

Evans, William, Sheila Murray and Robert Schwab (1997). "Schoolhouses, Courthouses and Statehouses After *Serrano*." *Journal of Policy Analysis and Management* 16:1 (Winter), pp. 10-31. [21 pp]

Replacing the System: Overview of School Choice

Chubb, John and Terry Moe (1990). Chapter 2 in *Politics, Markets and America's Schools* (Brookings Institution: Washington, DC).

Sawhill, Isabel with Shannon Smith (1998), "Vouchers for Elementary and Secondary Education." Unpublished working paper, Brookings Institution. [47 pp]

Replacing the System: Vouchers and Student Outcomes in Milwaukee

Rouse, Cecilia (1998). "Private School Vouchers and Student Achievement: An Evaluation of the Milwaukee Parental Choice Program." *Quarterly Journal of Economics*, pp. 553-602. [49 pp]

Rouse, Cecilia (1998). "Schools and Student Achievement: More Evidence from the Milwaukee Parental Choice Program." *FRBNY Economic Policy Review* (March), pp. 61-76 [15 pp.]

Replacing the System: Vouchers and Student Outcomes in New York City

Peterson, Paul, David Myers and William Howell (1998). "An Evaluation of the New York City School Choice Scholarships Program: The First Year." Unpublished working paper, Harvard University. [57 pp]

Replacing the System: Private Schools

Evans, William and Robert Schwab (1995). "Finishing High School and Starting College: Do Catholic Schools Make a Difference?" *Quarterly Journal of Economics* (November), pp. 941-74. [33 pp]

Neal, Derek (1998). "What Have We Learned About the Benefits of Private Schooling?" *FRBNY Economic Policy Review* (March), pp. 79-86 [7 pp.]

Replacing the System: The Effect of Competition on Public Schools

Hoxby, Caroline (2000). "Does Competition among Public Schools Benefit Students and Taxpayers?" forthcoming in *American Economic Review* (September). [56 pp]

Challenges to Reform: Teacher Supply and Incentives

Murnane, Richard (1991). *Who Will Teach?* (Cambridge, MA: Harvard University Press), Chapters 4 and 7.

Zernike, Kate (2000). "Less Training, More Teachers: New Math for Staffing Classes." *New York Times* (August 24), p. A1.

Murnane, Richard and David Cohen (1986). "Merit Pay and the Evaluation Problem: Why Most Merit Pay Plans Fail and a Few Survive" *Harvard Educational Review* 56:1, pp. 1-17.

Challenges to Reform: Tax Revolts and Demographic Shifts

Figlio, David (1997). "Did the "Tax Revolt" Reduce School Performance?" *Journal of Public Economics* 65, pp. 245-69. [24 pp]

Poterba, James (1997). "Demographic Structure and the Political Economy of Public Education." *Journal of Policy Analysis and Management* 16:1 (Winter), pp. 48-66. [18 pp]

Poterba, James (1998). "Demographic Change, Intergenerational Linkages, and Public Education." *American Economic Review* 88:2 (May), pp. 315-20. [5 pp]

Part IV: Higher Education

Theory of Price-Setting in Higher Education

Rothschild, Michael and Lawrence White (1995). "The Analytics of the Pricing of Higher Education and Other Services in Which the Customers are Inputs." *Journal of Political Economy* 103 (June), pp. 573-86. [13 pp.]

Winston, Gordon (1999). "Subsidies, Hierarchy and Peers: The Awkward Economics of Higher Education." *Journal of Economic Perspectives* 13:1 (Winter), pp. 13-36. [23 pp]

Rising Tuition

Kane, Thomas (1999). “Rising Costs in Higher Education” in *The Price of Admission* (Washington, DC: Brookings), pp. 55-87. [32 pp]

Hoxby, Caroline (1997). How the Changing Market Structure of U.S. Higher Education Explains College Tuition.” National Bureau of Economic Research Working Paper ___. [40 pp]

Does Financial Aid Increase College Attendance?

Dynarski, Susan (1999). “Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion.” National Bureau of Economic Research Working Paper 7422 (November).

Kane, Thomas (1999). “Has Financial Aid Policy Succeeded?” in *The Price of Admission* (Washington, DC: Brookings), pp. 88-127.