

Why Does College Cost So Much?

WACUBO Annual Meeting

May 7, 2012

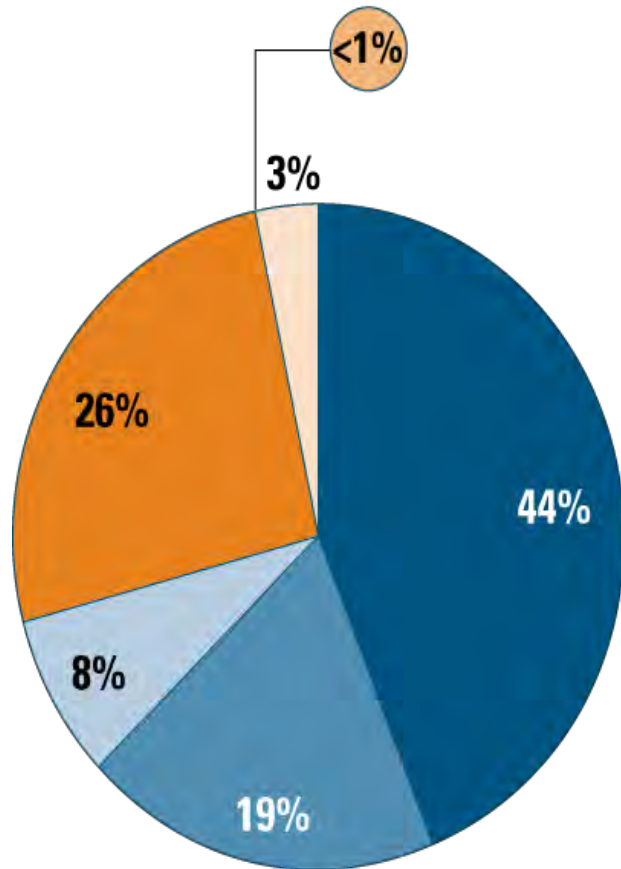
Jill Tiefenthaler, President

COLORADO COLLEGE



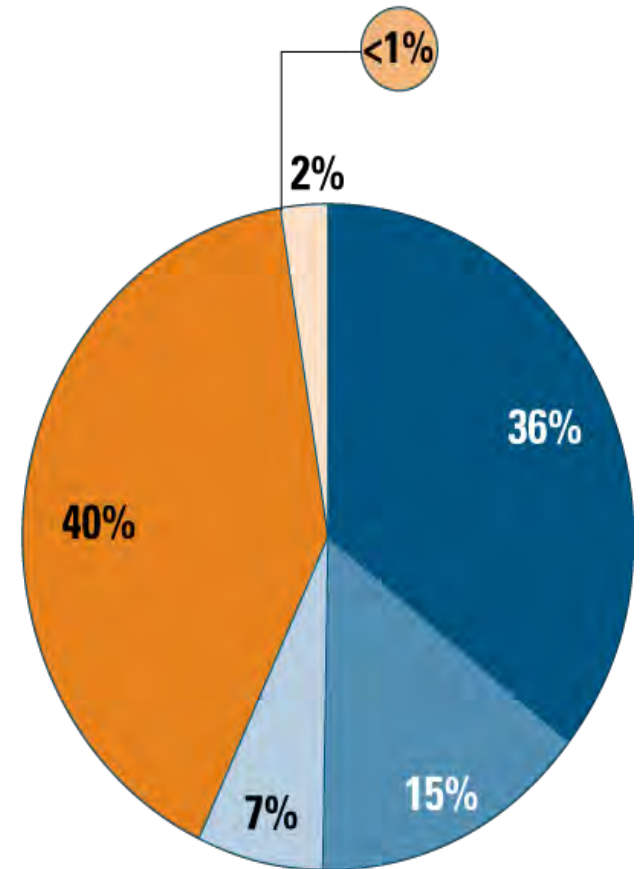
- **Does college cost too much?**
- **Overview of enrollment**
- **Overview of tuition increases**
- **Why costs increased so much?**
- **Economics of higher education**
- **The Price vs. Quality Trade-off**
- **Benefits of higher education**

Full-Time Undergraduates

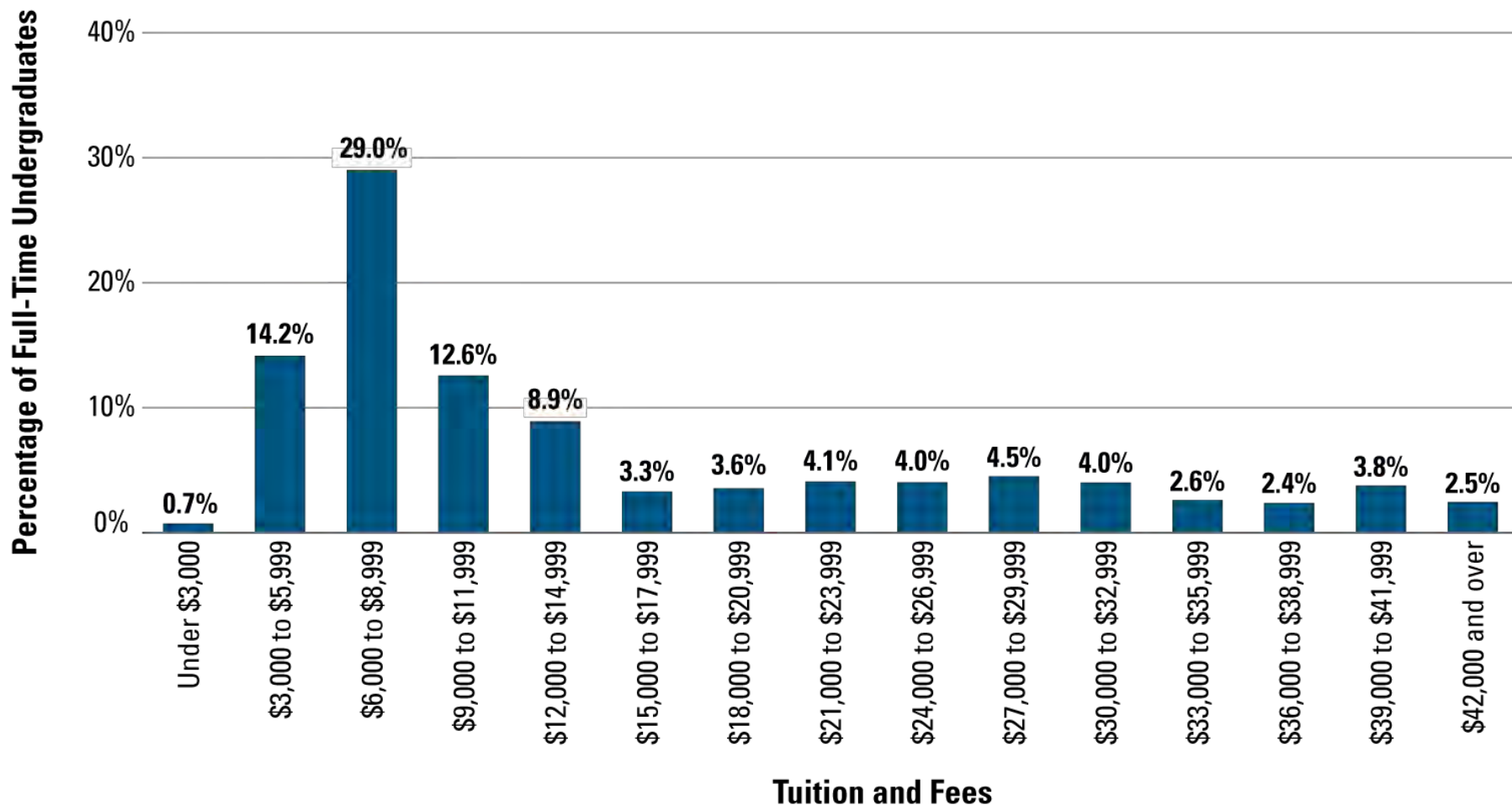


All Undergraduates

- Public Four-Year
- Private Nonprofit Four-Year
- For-Profit Four-Year
- Public Two-Year
- Private Nonprofit Two-Year
- For-Profit Two-Year

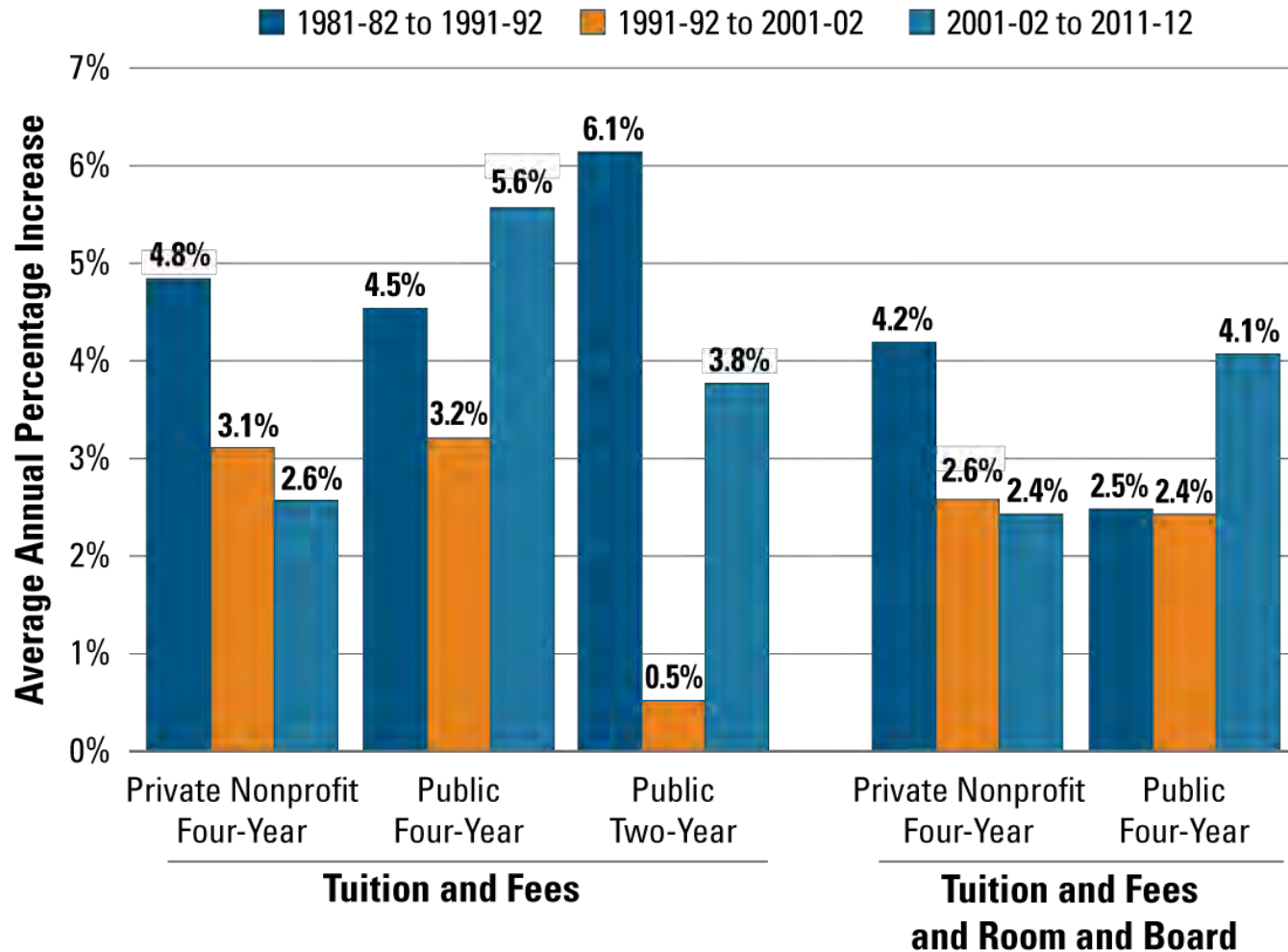


**Public and Private Nonprofit Four-Year Combined
(Median = \$9,936)**



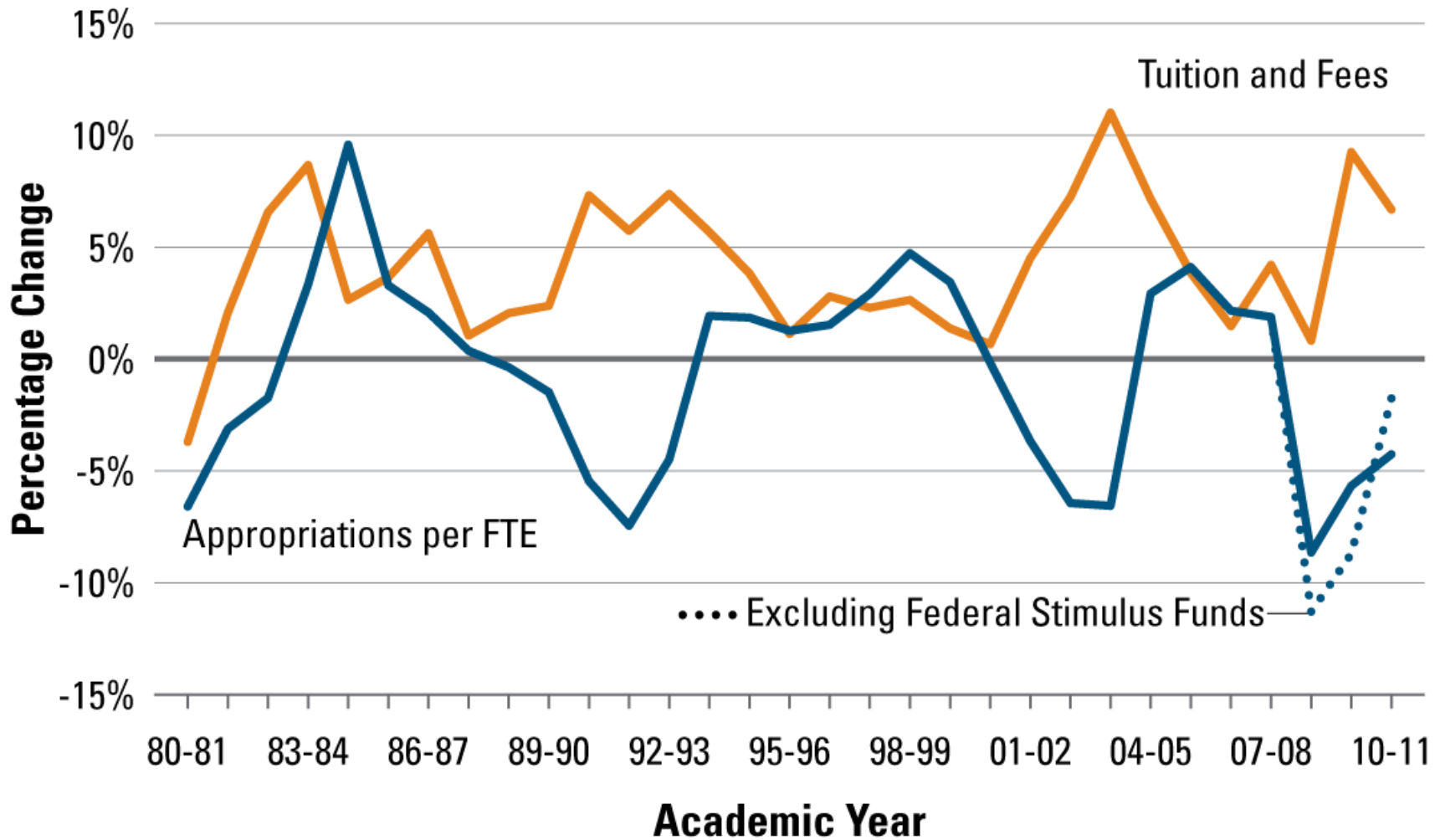
Source: The College Board, *Annual Survey of Colleges*.

Average Annual Percentage Increase beyond Inflation, 1981-82 to 2011-12



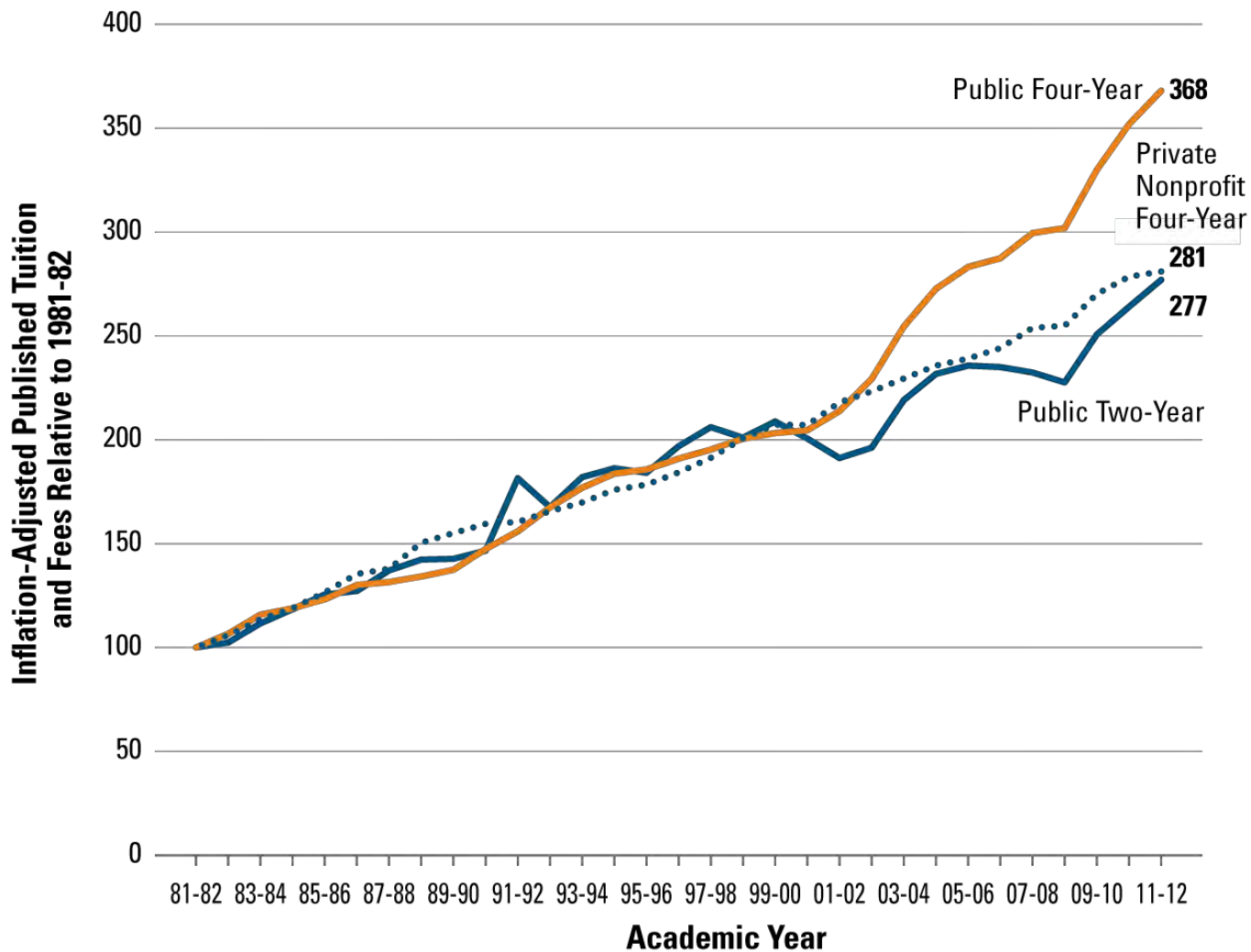
Source: The College Board, *Annual Survey of Colleges*; NCES, *Integrated Postsecondary Education Data System (IPEDS)*.

Annual Percentage Changes in State Appropriations per Full-Time Equivalent (FTE) and in T&Fs at Public Four-Year Institutions, Inflation Adjusted



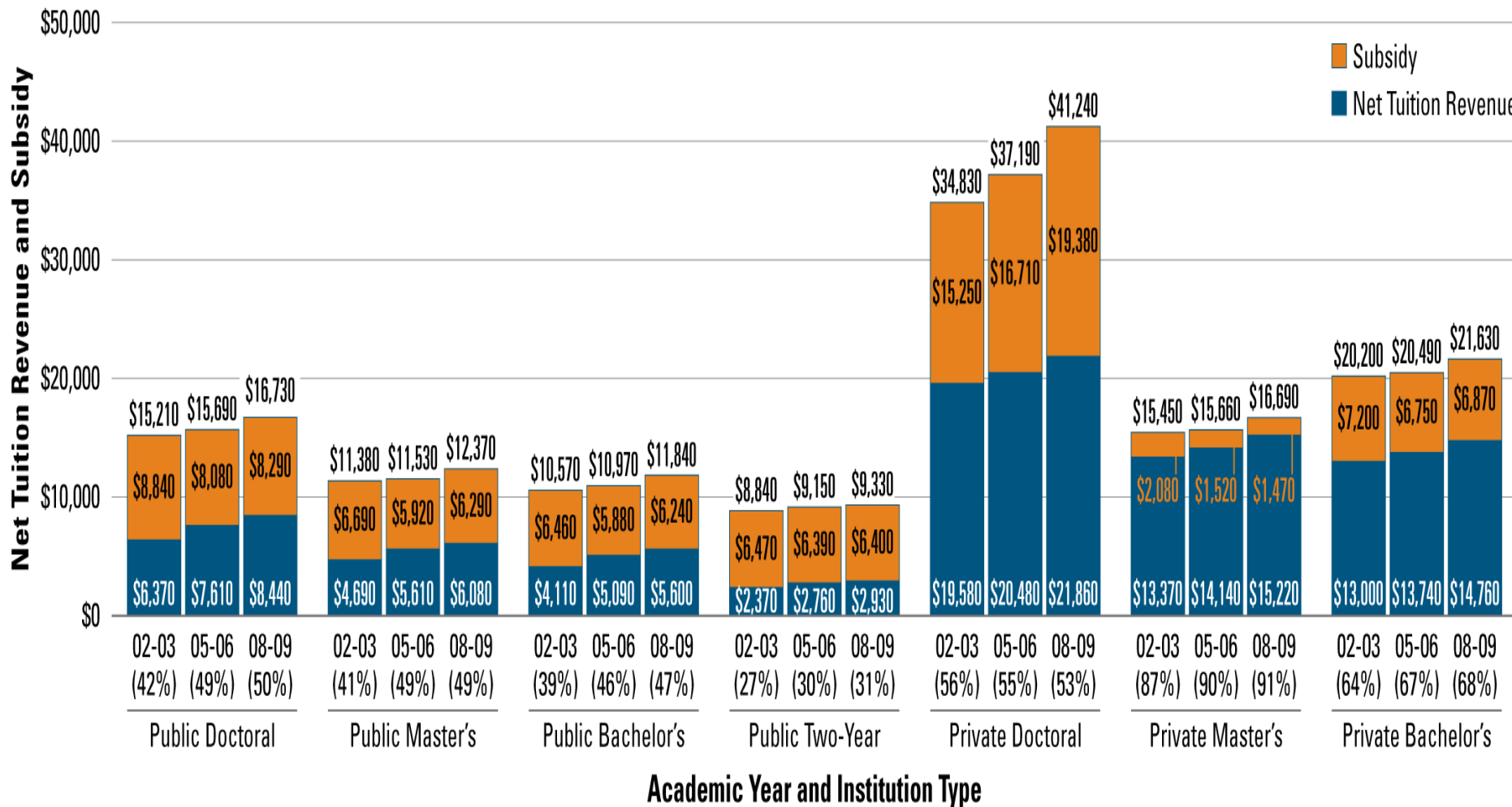
Sources: The College Board, *Annual Survey of Colleges*; Illinois State University, *Grapevine* reports; NCES, *Digest of Education Statistics 2008*, Table 219.

Inflation-Adjusted Published Tuition and Fees, 1981-82 to 2011-12 (1981-82=100)



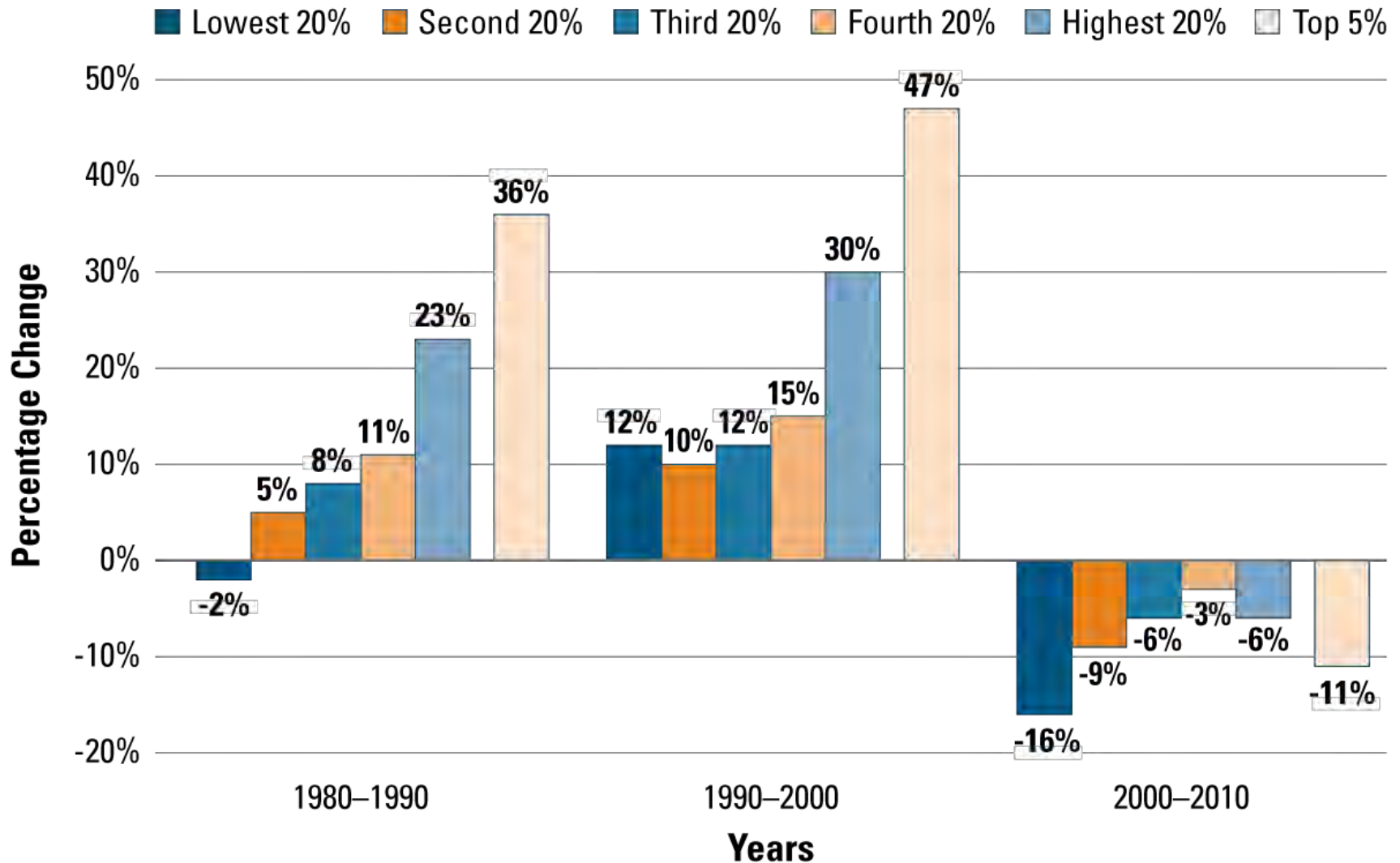
Source: The College Board, *Annual Survey of Colleges*; NCES, *Integrated Postsecondary Education Data System (IPEDS)*.

Net Tuition Revenues, Subsidies, and Educational Expenditures per FTE Student in Constant 2009 Dollars



Source: The College Board, Annual Survey of Colleges; NCES, Integrated Postsecondary Education Data System (IPEDS).

Percentage Growth in Mean Family Income by Quintile in Constant 2010 Dollars

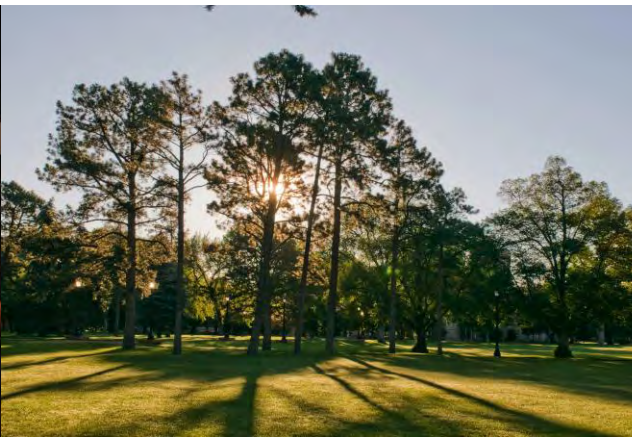


- Majority of full-time college students attend publics (70%).
- Majority spend < \$12,000 on T&F per year.
- 15% spend more than \$30,000 on T&F per year.
- T&F have increased beyond inflation in each of the last three decades in all sectors.



The Facts: Summary

- **Private T&F have increased 2.8 times over the last 30 years in real terms.**
- **Public T&F have increased 3.5 times over the last 30 years in real terms.**
- **Despite large increases, students are subsidized in all sectors.**
- **Family income has not kept pace with increases.**





Non-profits. Don't max TR-TC

What do we maximize? **Quality**

QUALITY - Very difficult to measure.

How do you produce quality? What are the inputs?

- **Faculty**
- **Students**
 - **Customer-input technology. Peer effects**
- **Facilities**
- **Programs**
- **Staff**
- **Athletics**
- **Other**



How do we increase quality? Need REVENUE!

Unlike for-profits who benefit from decreasing costs, cutting costs might lower Q.

How do universities generate revenue?

- **Donative revenues – endowment, annual giving, investments, appropriations (publics). Allows Price < Cost!**
- **Commercial revenues – tuition ($TR = P \cdot Q$), R&B.**

Elite higher education is a very competitive market and QUALITY is the driver. Increasing QUALITY is dependent on increasing revenue. Donative revenue (endowment) is key!

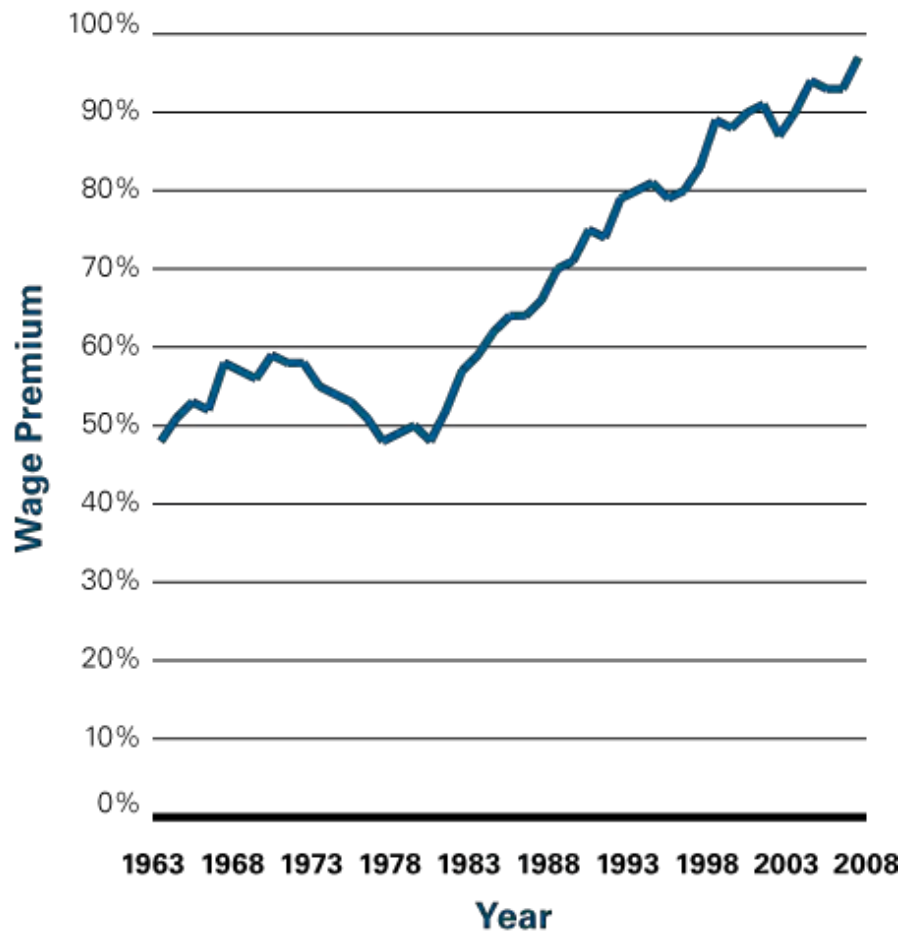


Why the increase in price of higher education?

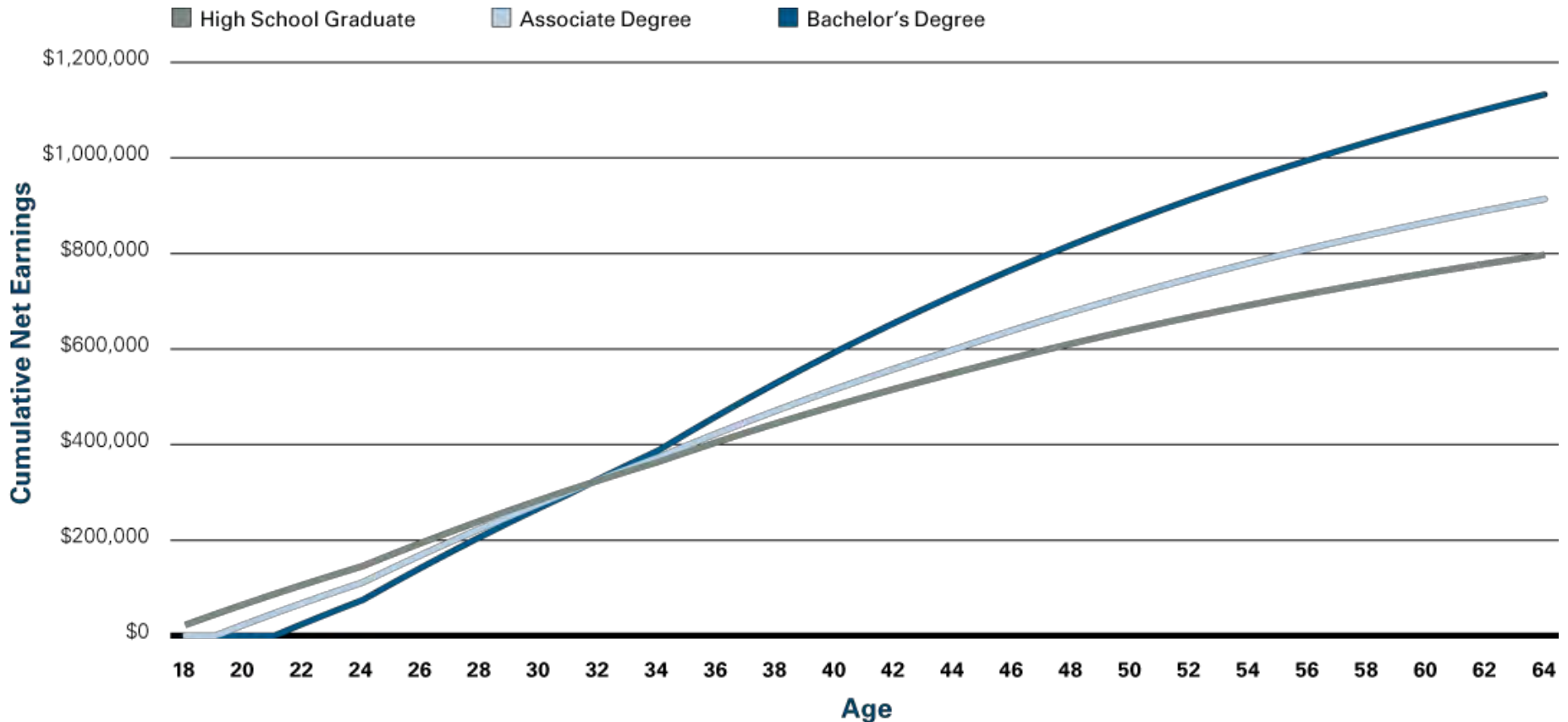
- **Market price is determined by demand and supply.**
- **Demand is increasing.**
 - Demographic bulge.
 - Increase in value of college degree.
 - Drive for quality combined with increasing information and national market for higher ed has increased relative demand for most selective institutions (Hoxby 2009).



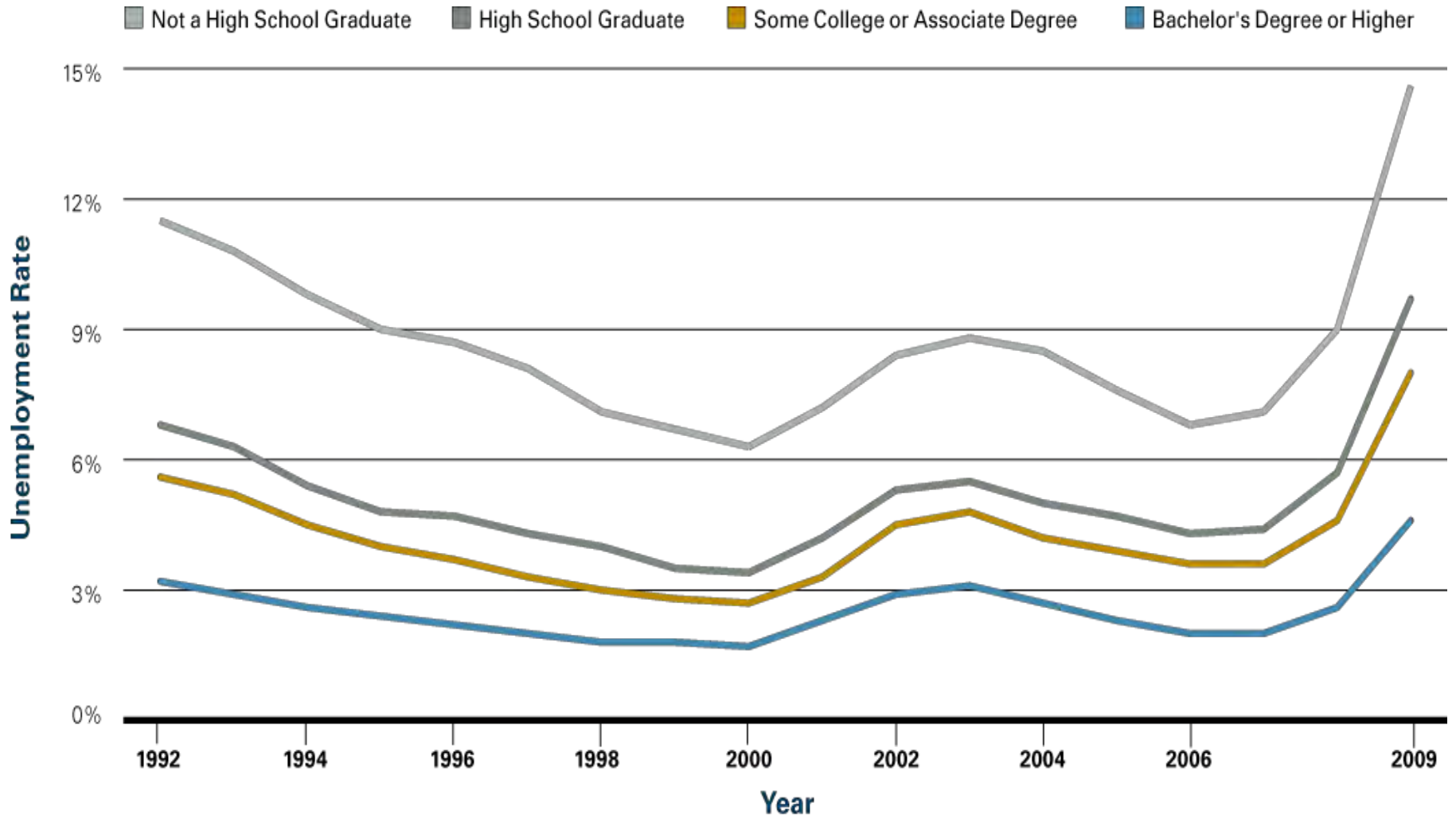
College-to-High School Weekly Wage Premium, 1963–2008



Estimated Cumulative Earnings Net of Loan Repayment for Tuition and Fees, by Education Level



Benefits of Higher Education



Why the increase in price of higher education?

•Supply/cost increases

- Increase in cost of highly skilled labor
- Increase in cost of financial aid
- Technology
- Regulation



Concluding Points



- Students/families want quality. As a result, universities compete on quality NOT on price.
- No benefit to lowering sticker price. If your price is lower, you have less revenue and can't increase quality as much as competitors. Students want quality!
- Students who can pay have inelastic demand. Others are elastic but get financial aid and not sticker price sensitive.
- Because students are also inputs and universities have a public mission, they price below cost and subsidize students to increase Q.
- Price has increased because of both D&S.