

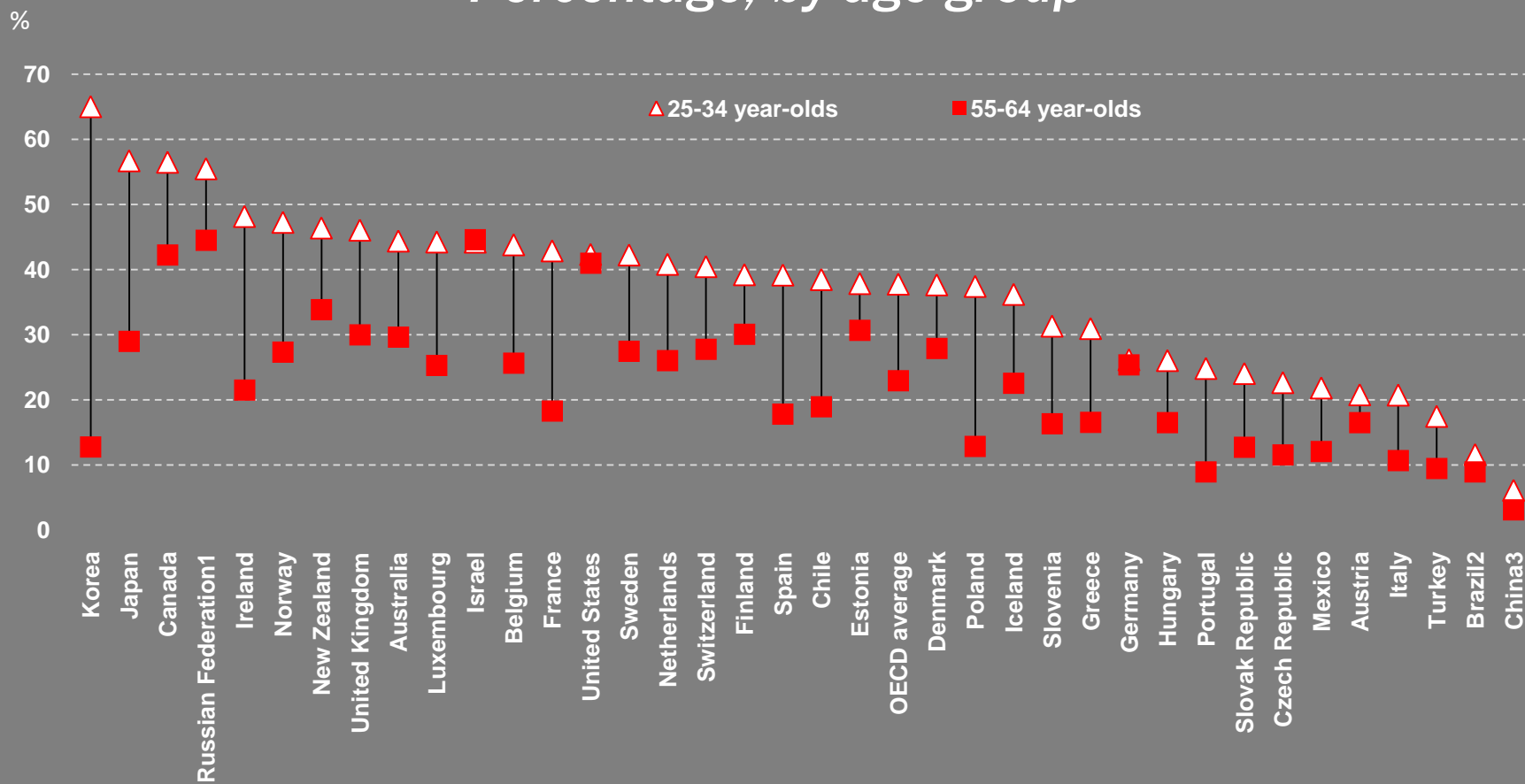
Summer School – Higher School of Economics - June 2013

Analysing Higher Education from an Economic Perspective – Potential and Limitations

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Population that has attained tertiary education (2010)

Percentage, by age group



**How to explain the steady expansion of
Education?**

**What are the individual and social
motivations for the expansion of Higher
Education?**

The rising influence of Economics in Higher Education

Economic Relevance of Higher Education:

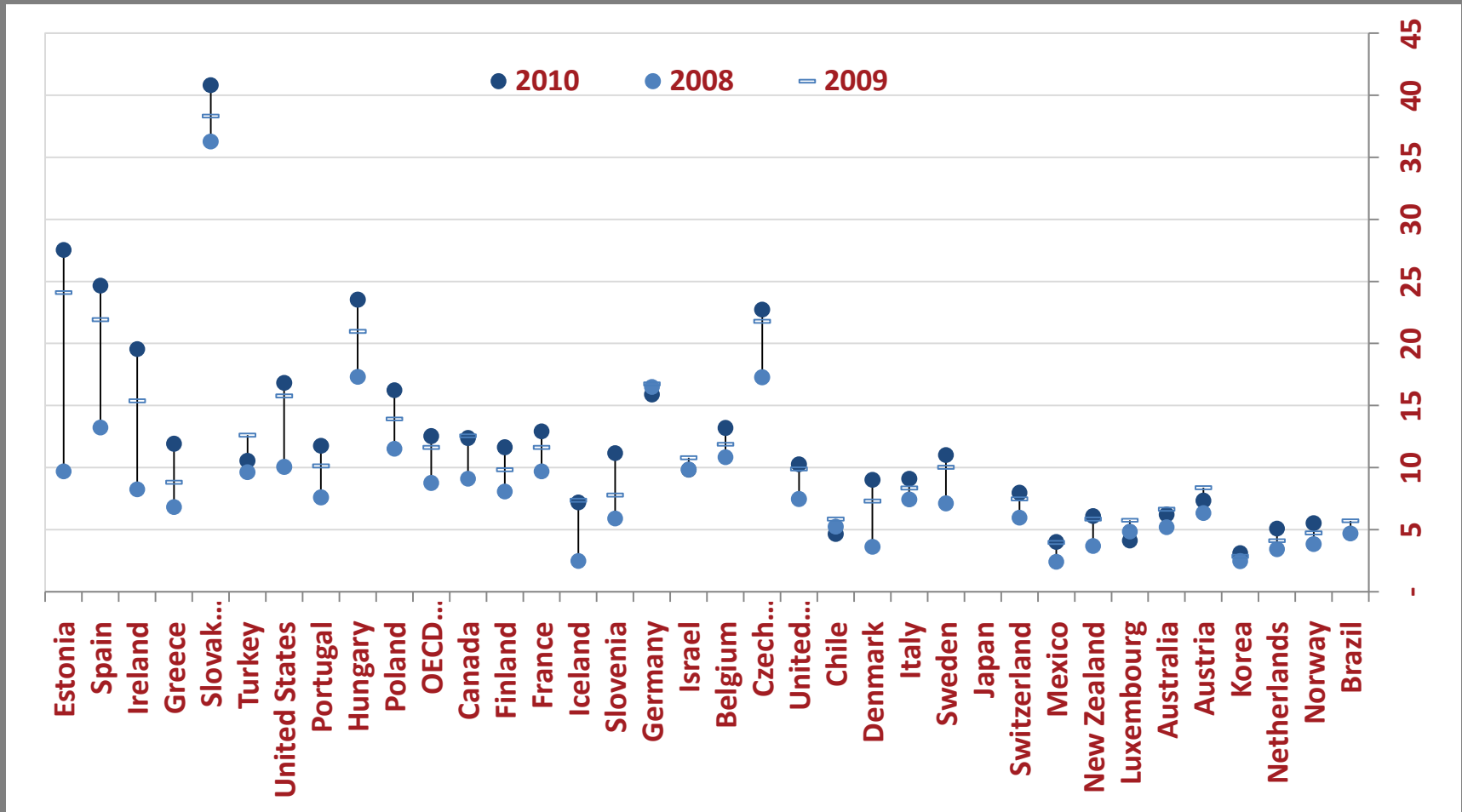
- **Economic effects**
- **Economic motivations**
- **Use of resources**

Qualifications and Employment's Structure

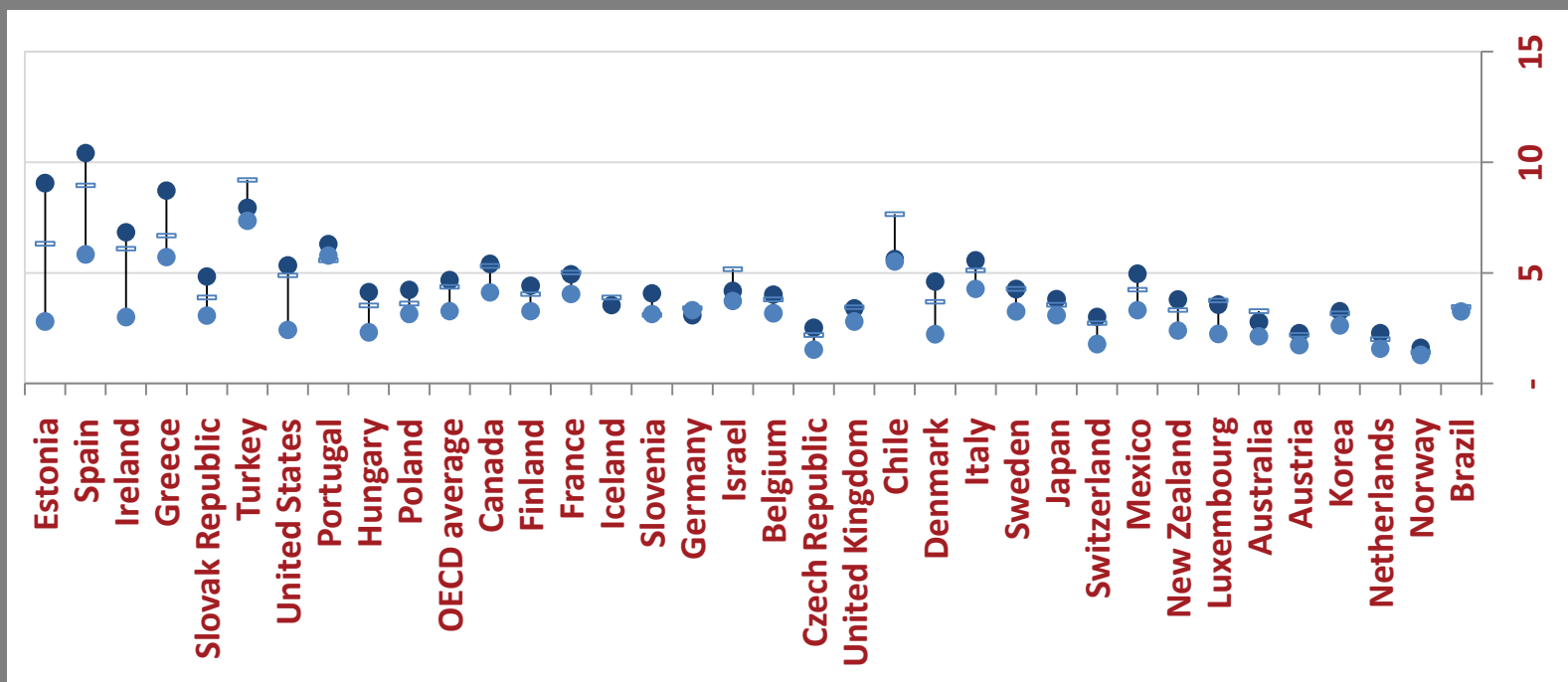
UK	1981	1999	2005	2010
KNOWLEDGE WORKER	27	32	39	41
IN-PERSON SERVICES	17	21	22	22
ROUTINE PRODUCTION	56	47	39	37

USA				
KNOWLEDGE WORKER	22	24	29	31
IN-PERSON SERVICES	44	45	45	44
ROUTINE PRODUCTION	34	31	26	25

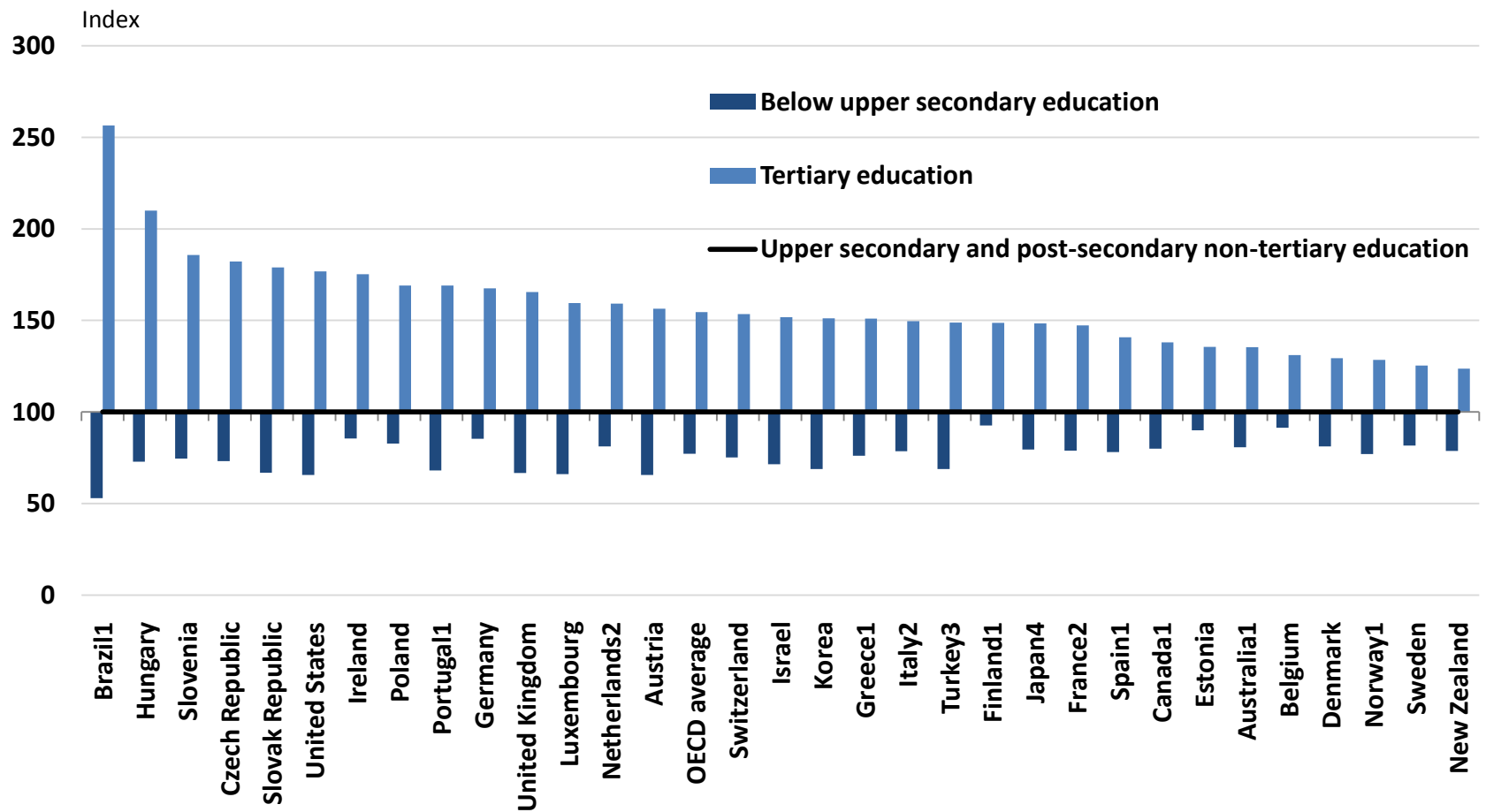
Unemployment rates of 25-64-year-olds, by educational attainment level (2008, 2009 and 2010) – Below Upper Secondary School



Unemployment rates of 25-64-year-olds, by educational attainment level (2008, 2009 and 2010) – Tertiary Education



Relative earnings from employment among 25-64 year-olds, by level of educational attainment (2010 or latest available year)



**Better and more education as a
consequence of high(er) income**

Or

**High(er) income as a consequence of
better and more education**

Growing interest of Economists on Education:

- **Economic growth and development**
- **Income distribution and inequality**
- **Analysis of the labour markets**
- **Expansion of the economics discipline**
- **Development of human capital theory**

The Evolution of the Economics of Education

- **1960s – Emergence and rapid development**
- **1970s – Crisis and Scepticism**
- **1980s – Reformulations and developments**
- **1990s and 2000s – Renewed strength and influence**

Economic Effects of Higher Education :

- Significant productivity and income effects
- Employability and Income
- Quantity vs. quality
- Complementarity between types of human capital
- Long-term effects in the labour market
- Technology and skill-bias

Education regarded as Human Capital:

- Higher Education becomes an individual and social Investment
- Individuals and societies spend resources in higher education not only due to consumption but also to investment motivations
- Looking at Higher Education from an economic perspective – effects, rationales, motivations, behaviour, objectives,...

How to approach Higher Education from an Economic Perspective?

Economics is about:

- **Human needs and material possibilities**
- **The problem of scarcity**
- **What, how much, how and to whom produce**
- **Need to make choices**

Basic Assumptions in Economics:

- **Methodological Individualism**
- **Self-interested individuals**
- **Rational and consistent choices**
- **Abstraction and deductive reasoning**

Basic Concepts in Economics:

- **Market mechanism**
- **Opportunity cost**
- **Efficiency**

Market Mechanism:

- **Allocation of resources based on prices and Supply-Demand**
- **Role of self-interest and incentives**
- **Law of supply and demand**

Opportunity Cost:

- **Limited resources**
- **Choosing between alternatives**
- **Value of next best alternative that the decision forces us to give up**

Efficiency:

- **Absence of waste**
- **Use of all available input to produce maximum output that current technology allows**
- **Technical and Allocation efficiency**

Can we make an Economic Analysis of Higher Education?

- **Can HEI be considered a firm?**
- **Is Higher education a business?**
- **Who are HE customers?**
- **Do we have a higher education demand and supply?**
- **What is the price of higher education services?**

Higher Ed as an economic activity:

- **Produces and sells educational services**
- **Their products have a price**
- **Buys inputs to obtain products**
- **Subject to technological/economic constraints**

Higher Ed as a peculiar business:

- **Multi-purpose units**
- **Nonprofit dimension**
- **Price loosely related w/ marginal cost (below)**
- **Duality of customers**
- **Customer-input technology**
- **Controlling supply and choosing customers**
- **Variability of the production function**

Concluding Remarks

The influence of Economics in Higher Education:

- **Society's views about HE – individual and social**
- **HE's system – markets, privatization, competition**
- **Relationship between Governments and HEIs (especially public ones)**
- **HEIs as quasi-economic organizations: mission, perceptions, priorities, internal organization**

Thank you!

Questions? Comments? Complaints?...

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