

Human Capital Investment: Helping Students Choose the Best Path for Themselves

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The views and opinions expressed are those of the presenter. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.

Our Perspective on Financial Education

Our Perspective

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Research

Our Perspective



This series articulates the Richmond Fed's views on issues of particular importance to the economy and the financial system.

Financial Education

Instead of prescribing specific financial advice, financial education efforts arguably should focus on providing information to enhance the ability of individuals to evaluate their own options, particularly for life's major financial decisions.



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What makes the higher ed decision **major**?

$$\max_S \int_S^{\infty} \exp(-(r + \nu)t) w(t) h(t) dt$$

Complex



Infrequent



Irreversible



Long-term

Source of Maximization Problem:
Acemoglu, Daron and David Autor. "Lectures in Labor Economics." MIT.

Key Takeaways



College completion typically leads to positive labor market outcomes, but...

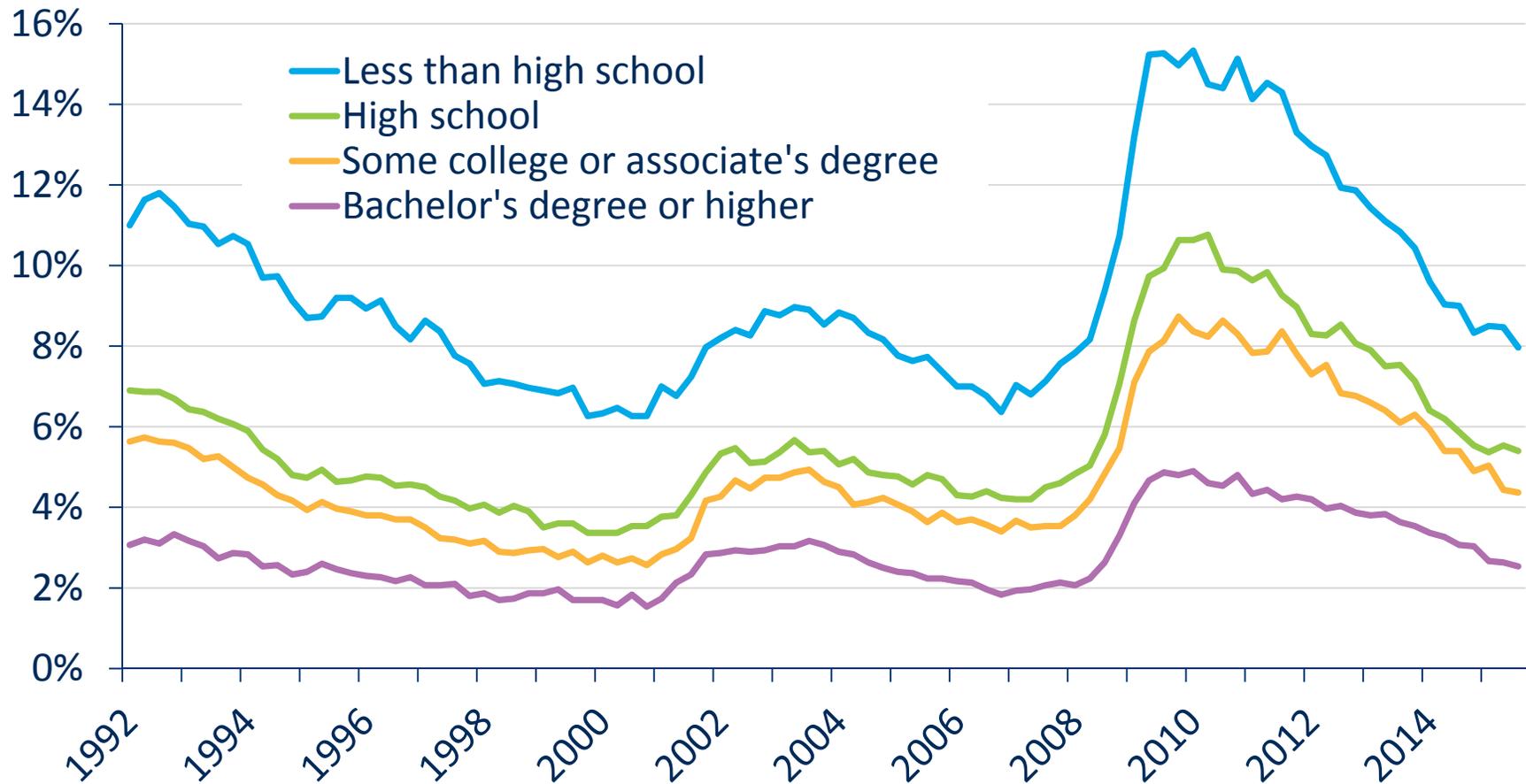
- Not everyone who enrolls in college completes.
- College may not be the best path for all students.

Preparedness and good information are important for choosing the right path and succeeding.



College completion has long inoculated against unemployment

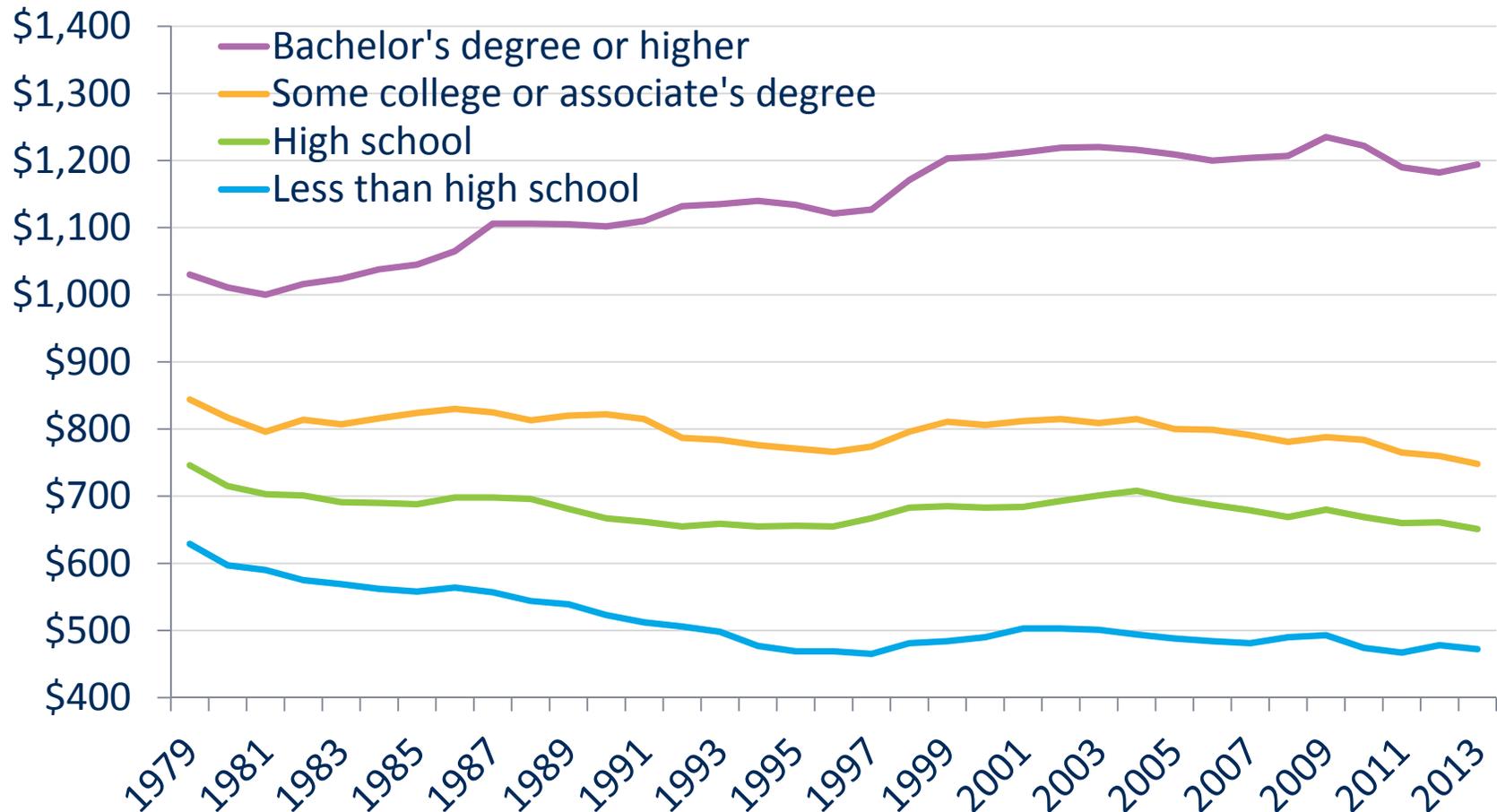
Unemployment rate, workers 25 years and over



Source: Bureau of Labor Statistics

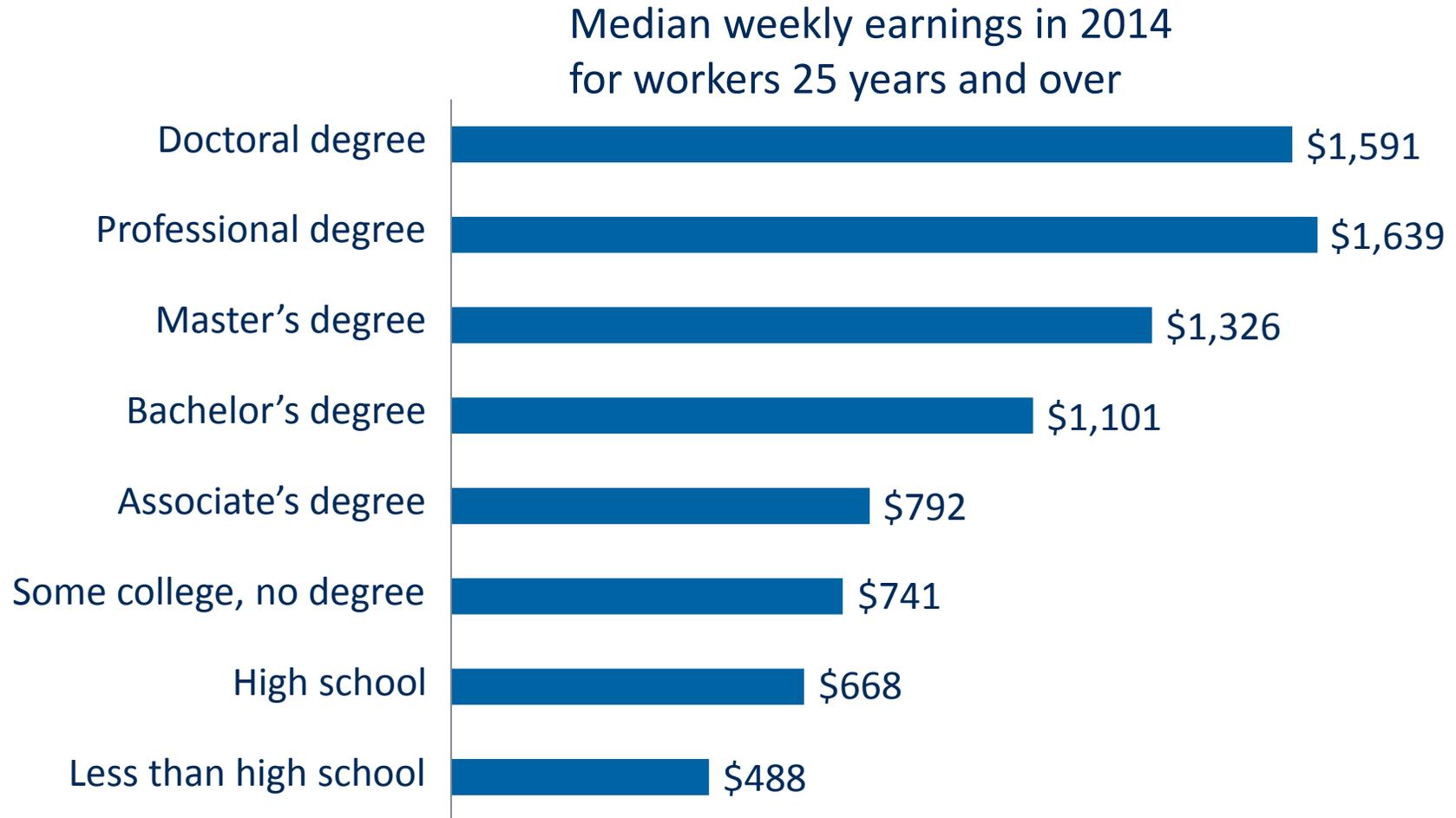
And college has long delivered earnings payoffs, which have steadily increased over time

Median weekly earnings, workers 25 years and over (2013 constant dollars)



Source: Bureau of Labor Statistics

A finer recent breakdown



Source: Bureau of Labor Statistics

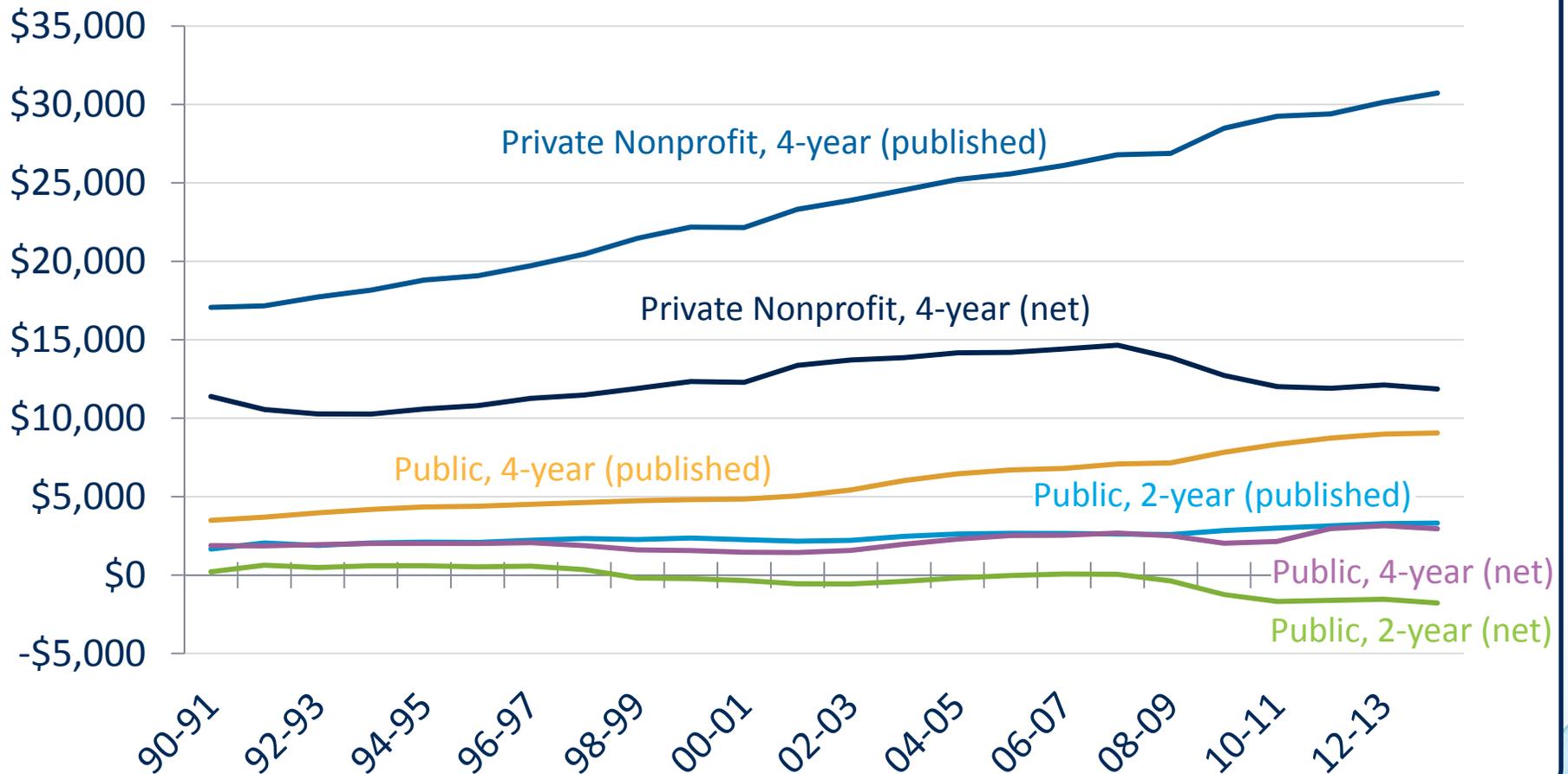


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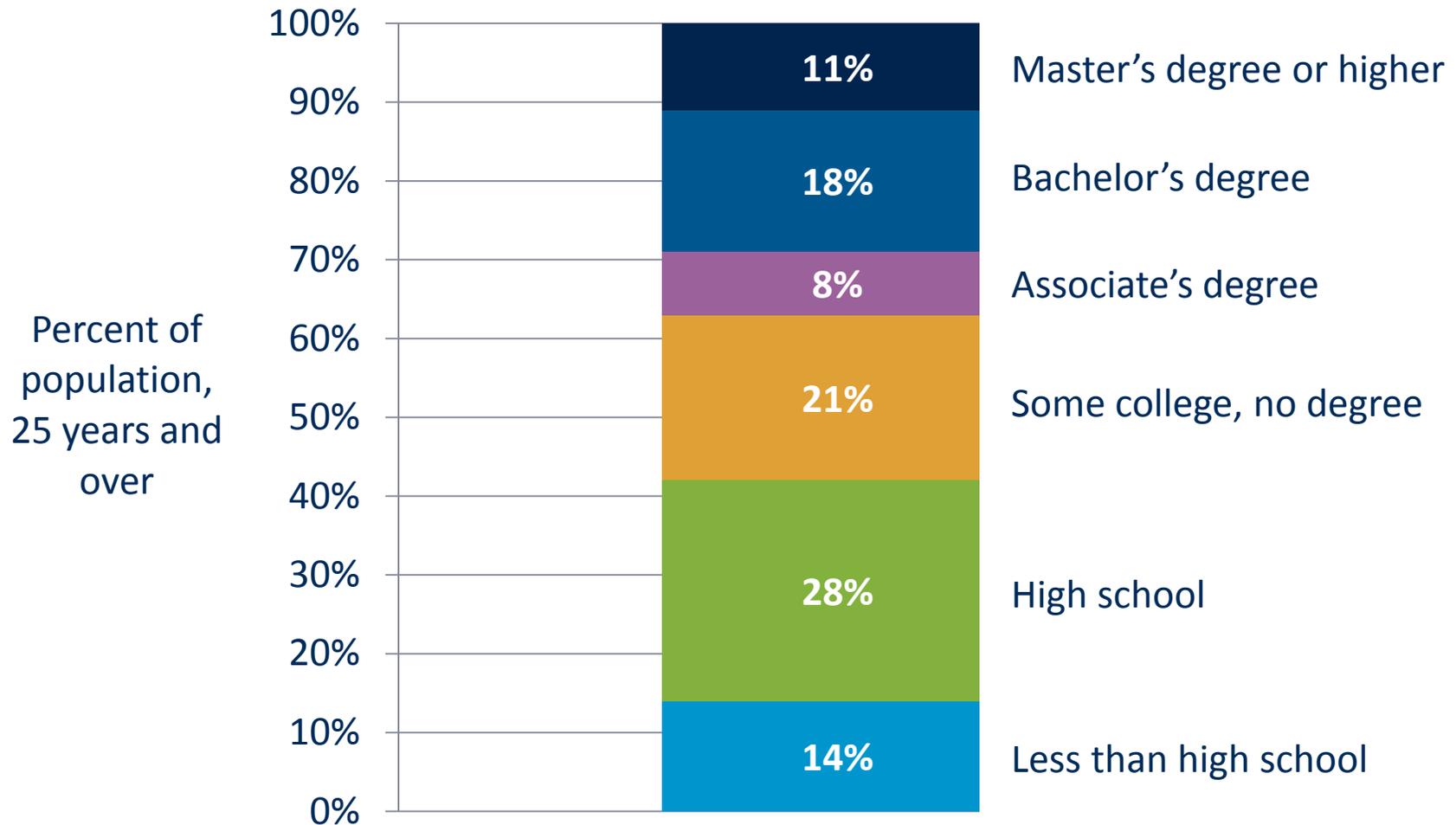
Sticker prices have risen, but what many students actually pay has been relatively flat

Average Published vs. Net Tuition and Fees (2014 constant dollars)



Source: The College Board, Annual Survey of Colleges;
Trends in College Pricing 2014

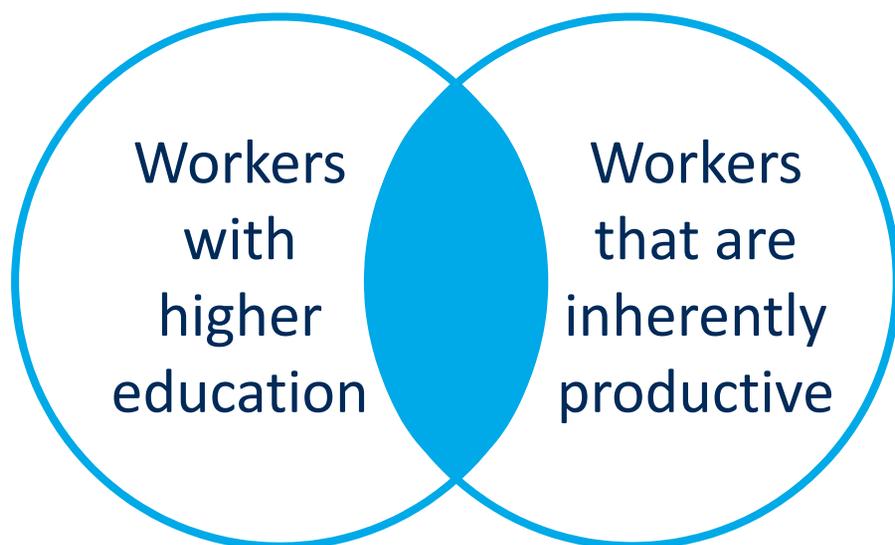
Educational Attainment of U.S. Population



Source: U.S. Census Bureau 2013 ACS 5-year est.

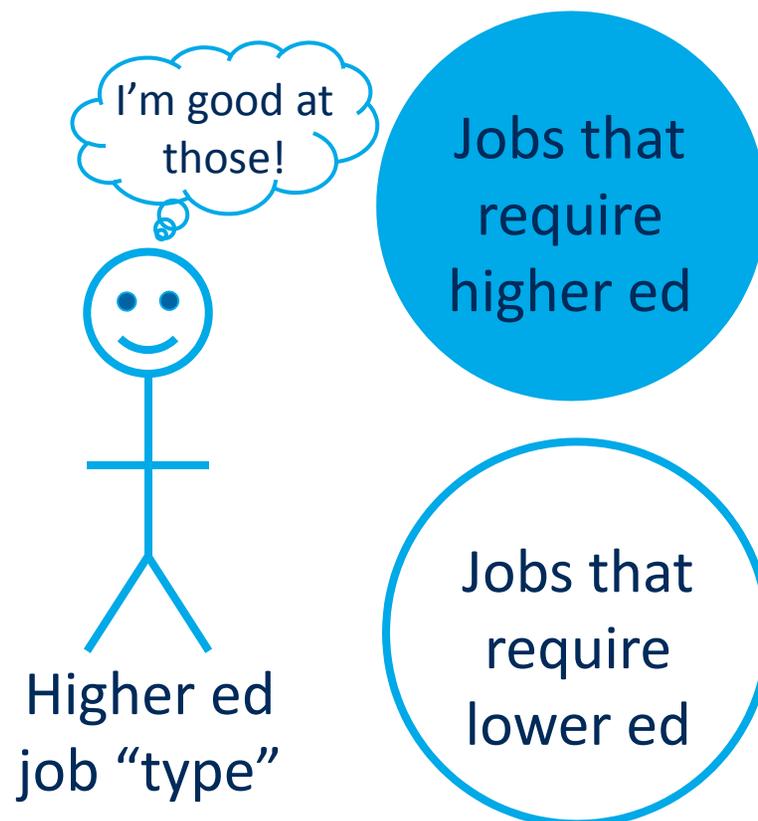
Returns to college look good, but... potential biases in the data

Ability Bias



Higher ed "types"
are already productive

Selection Bias



After controlling for biases, returns still look good, but...

Two important caveats to keep in mind... #1



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After controlling for biases, returns still look good, but...

Two important caveats to keep in mind... #2



You've got to finish.

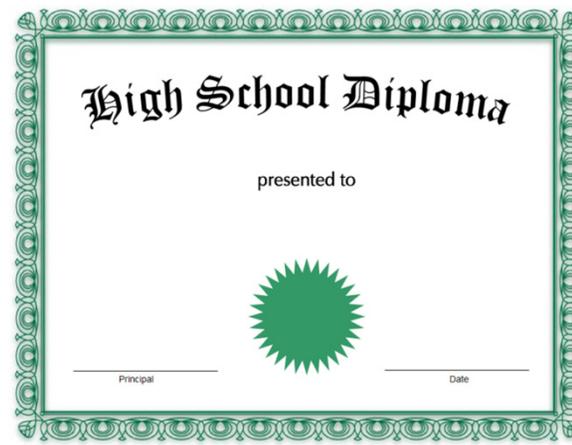
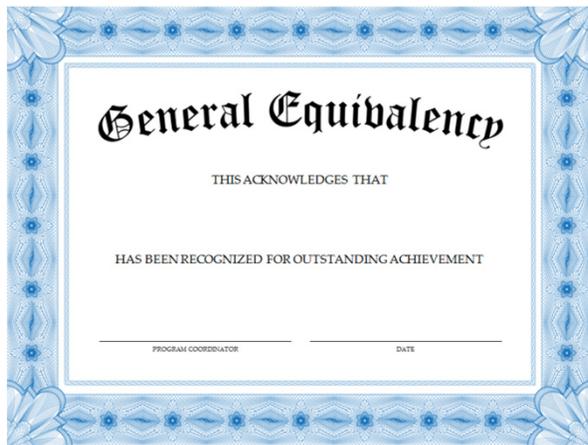
Photo Source: by Beat, Flickr

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The Importance of Completion

High school completion is first order.



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Completion Rates Beyond High School

Many who enroll do not complete **any** degree within 6 years of completing high school.

Expected Attainment	No Degree	% of No Degree with Loans	Student Loan Debt (borrowers with no degree)
Certificate	52%	37%	\$11,160
Associate's degree	62%	39%	\$10,758
Bachelor's degree	38%	51%	\$14,457

Data reflect survey results from 2004-2009.

Source: Avery, Christopher, and Sarah Turner. "Student Loans: Do College Students Borrow Too Much — Or Not Enough?" *Journal of Economic Perspectives*, Winter 2012, vol. 26, no. 1, pp. 165-192

The Importance of Preparedness

Three dimensions of preparedness



Academic
ability



Work
habits



Knowing
options



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Prepping for Completion and the Workforce

- **Early Childhood** experiences seem to matter a lot for hard and soft skills.
- **MS/HS** appear to be a good time for exploring options and further building soft skills.
- **Community college** can help students assess preparedness and explore other postsecondary options.



The Upshot

- **Completion** is important.
- Returns are **individual**.
- **Preparedness** (including having information) can help students choose the best path for themselves and ultimately complete that path.



Richmond Fed Resources



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