

Do Education Decisions Respond to Returns by Field of Study*

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Abstract

We utilize the 2000 cohort of university graduates from the National Graduate Survey (NGS) to estimate the extent to which the choice of field of study is influenced by expected returns to those fields of study. The expected returns are based on earnings equations estimated from the earlier 1990 NGS cohort for the years 1992 and 1995 -- years that are around the time when the 2000 cohort would be applying to university and forming expectations of their expected returns by field of study. We estimate those expected returns using conventional OLS earnings equations as well as IV estimates to account for the potential endogeneity of the returns by field of study since selection effects may bias the expected returns. Our IV estimates utilize measures of skill-biased technological change as instruments.

Overall, our results suggest that prospective students do choose fields of study in part at least on the basis of earnings they can expect to receive in those fields. Furthermore, earnings expectations formed around the time they are applying are more influential than earnings expectations based on years further away from that time, although both generally have an impact on the choice of field of study.

JEL Codes: J21, J24, J28

Key Words: Education decisions; field of study; returns to education; multi-nomial logits; National Graduate Survey (NGS)

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