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Economic Returns to Higher Education: Signaling V. Human Capital Theory

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Oral Presentation O1.2

ECONOMIC RETURNS TO HIGHER EDUCATION: SIGNALING V. HUMAN CAPITAL THEORY

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It is general knowledge that individuals with higher levels of education will, on average, earn higher wages in the labor market. And while this correlation has be established, the causal relationship behind those returns to education is less clear. Past research has been done in an attempt to determine the mechanism by which education increases earnings. Human Capital Theory argues intuitively that education endows an individual with productivity-enhancing human capital, which translates into higher wages in the labor market. Signaling Theory argues instead that education acts merely as a signal of inherent human capital, and that it is the inherent human capital, not acquired human capital, that determines a worker's wage. This study employs OLS regression and is an extension of a previous study carried out by Chevalier et al (2004). Using controls for inherent ability and motivation, it explores the effects of inherent human capital on productivity and wages, and applies that understanding to an assessment of the respective merits of both Signaling and Human Capital Theory.