

Written Exam for the B.Sc. or M.Sc. in Economics winter 2014-15

Economics of Education

Final Exam/ Elective Course

December 16, 2014

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish.

This exam question consists of 3 pages in total

This is the final exam for Economics of Education, Winter 2014. You have three hours to answer the following six questions, in any order you like. Note that the first question is not necessarily the easiest or shortest. Draft your responses with an eye to clarity of exposition and structure as well as to showing your understanding of the concepts learned in class. Link the problem at hand to economic theory.

Make sure to *pace yourself*. Also, you may choose to work on the questions in a *different order*: All questions can be answered independently.

Please turn over.

Private Schools

“Germany is becoming a country of private schools. Since 1992, the number of privately operated general education schools has risen about fifty per cent, and every week on the average one or two new establishments are added. [...] Private schools in Germany are varied. There are those with a special emphasis in music, [...] others for gifted pupils and for the handicapped, for pupils whose parents want them to be introduced as late as possible to the pressures of competitive and achievement-oriented society, and for those whose parents want to accelerate their achievement. [...] Concerning the content of their curriculae and selection of their staff, private schools may set their own emphases, but must accept the general conditions laid down by the respective federal state.” (recent article by the German Goethe Institut¹).

- (1) Discuss reasons why parents would favor private over public schools. Make sure to consider all different explanations from Economics of Education.
- (2) The article further states that “[Private schools] attempt to stay abreast² of social changes and the increasing demands on pupils and parents. Thus the all-day supervision often offered by private schools meets the needs of single and working parents.” In the medium- to long-run, what do you think will happen to public schools that are now facing competition from private schools? (Hint: Think of the lecture on school financing with models of voting.)
- (3) Now consider the government mandate that private schools may not reject students on the basis of their ability to pay. You could interpret this as a mandatory scholarship to low-income students, provided by the schools. What does this imply for the student-body composition in terms of a) financial background and b) ability?

Many private schools and universities can also choose to improve their reputation by attracting the “best” students. They can attract these by screening with entrance exams and rejecting students below a certain cutoff. Alternatively, schools and universities can also offer scholarships to students who have the best grades from previous education, or the highest scores at an entrance exam.

- (4) From the governments’ perspective, or as a social planner, what can we say about the efficiency of entrance exams?
- (5) Contrast two situations: A country moves from having no merit-based scholarships available at all to a situation where private schools and universities offer such merit-based scholarships. This means that schools now offer financial support for the brightest and best children. What effect does this move to targeted financial aid have on inequality in human capital investments, and inequality in earnings? (Hint: Becker’s Woytinski lecture may be useful.)
- (6) Finally, it remains unclear whether private schools and universities are actually more productive or “higher quality” than public schools and universities. One might analyze the relative rates of return to these two types of educational institutions, in order to provide guidance on whether the returns are different. If you were to perform this analysis, how would you go about it? What kind of information would you need, and which data points would you use?

¹Published at <http://www.goethe.de/wis/fut/sul/en4495615.htm>, accessed Nov. 13, 2013.

²Definition “abreast:” up to a particular standard or level, or up to date.