Why Does College Cost So Much

Baumol effect

Mercatus Center. Archibald, Robert B.; Feldman, David H. (2014). Why Does College Cost So Much?. Oxford University Press. ISBN 978-0190214104. Surowiecki,

In economics, the Baumol effect, also known as Baumol's cost disease, first described by William J. Baumol and William G. Bowen in the 1960s, is the tendency for wages in jobs that have experienced little or no increase in labor productivity to rise in response to rising wages in other jobs that did experience high productivity growth. In turn, these sectors of the economy become more expensive over time, because the input costs increase while productivity does not. Typically, this affects services more than manufactured goods, and in particular health, education, arts and culture.

This effect is an example of cross elasticity of demand. The rise of wages in jobs without productivity gains results from the need to compete for workers with jobs that have experienced productivity gains and so can naturally pay higher wages. For instance, if the retail sector pays its managers low wages, those managers may decide to quit and get jobs in the automobile sector, where wages are higher because of higher labor productivity. Thus, retail managers' salaries increase not due to labor productivity increases in the retail sector, but due to productivity and corresponding wage increases in other industries.

The Baumol effect explains a number of important economic developments:

The share of total employment in sectors with high productivity growth decreases, while that of low productivity sectors increases.

Economic growth slows down, due to the smaller proportion of high growth sectors in the whole economy.

Government spending is disproportionately affected by the Baumol effect, because of its focus on services like health, education and law enforcement.

Increasing costs in labor-intensive service industries, or below average cost decreases, are not necessarily a result of inefficiency.

Due to income inequality, services whose prices rise faster than incomes can become unaffordable to many workers. This happens despite overall economic growth, and has been exacerbated by the rise in inequality in recent decades.

Baumol referred to the difference in productivity growth between economic sectors as unbalanced growth. Sectors can be differentiated by productivity growth as progressive or non-progressive. The resulting transition to a post-industrial society, i.e. an economy where most workers are employed in the tertiary sector, is called tertiarization.

Berry College

(October 13, 2010), "Federal Policy and College Tuition", Why Does College Cost So Much?, Oxford University Press, pp. 201–213, doi:10.1093/acprof:oso/9780199744503

Berry College is a private, non-denominational Christian liberal arts college located in the Mount Berry community adjacent to Rome, Georgia, United States. Founded in 1902 by educator Martha Berry as the Boys Industrial School and soon thereafter the Martha Berry School for Girls, it evolved into a junior college in 1926 and awarded its first senior college degrees in 1932. Accredited by the Southern Association of

Colleges and Schools (SACS), the institution spans more than 27,000 acres, making it the largest contiguous college campus in the world. Berry offers undergraduate and graduate degrees across business, education, humanities, arts, and sciences, and continues its founder's legacy through the LifeWorks program, which guarantees every student an on-campus job to help offset tuition costs.

Revenue theory of cost

universities fit much of Bowen's description: the economist Ronald G. Ehrenberg, in his book Tuition Rising: Why College Costs So Much, describes universities

The revenue theory of cost, also referred to as Bowen's law or Bowen's rule, is an economic theory explaining the financial trends of American universities. It was formulated by American economist Howard R. Bowen (1908–1989), who served as president of Grinnell College, the University of Iowa, and the Claremont Graduate School.

The theory posits that costs at universities are almost entirely a function of revenue: universities raise as much money as they possibly can and then spend nearly the entirety of it in an attempt to increase prestige and quality of education. It follows from this that if universities are able to increase their revenue streams, costs will also rise, creating a revenue-to-cost spiral. The revenue theory of cost has thus been offered as an explanation for rising costs at universities, including rising tuition.

Cost disease socialism

2016). Trends in College Spending: 2003-2013. Where Does the Money Come From? Where Does It Go? What Does It Buy? (Report). Delta Cost Project at American

Cost disease socialism is a proposed concept by Steven M. Teles, Samuel Hammond, and Daniel Takash of the Niskanen Center. It describes an economic pattern in which the subsidy of essential goods and services, coupled with limitations or regulatory constraints on new supply, increases the price without increasing the quantity provided.

2021–present United Kingdom cost-of-living crisis

newspaper defines a cost-of-living crisis as "a scenario in which the cost of everyday essentials like energy and food is rising much faster than average

In late 2021, the prices of many essential goods in the United Kingdom began increasing faster than household incomes, resulting in a fall in real incomes. The phenomenon has been termed a cost-of-living crisis. It is due in part to the economic impact of the COVID-19 pandemic, including a global surge in inflation, as well as the economic instability caused by Brexit and the Russian invasion of Ukraine.

While all in the UK are affected by rising prices, the crisis most substantially affects low-income persons. The British government has responded with measures including grants, tax rebates, and subsidies to electricity and gas suppliers. Regular pay began to outpace inflation beginning in May 2023, but living costs have remained at elevated levels, and have continued to increase faster than headline inflation into 2025.

Voluntary childlessness

Lotte (May 14, 2020). "Waarom hebben zoveel mensen een kinderwens?" [Why do so many people have a desire to have children?]. Quest (in Dutch). Archived

Voluntary childlessness or childfreeness is the active choice not to have children and not to adopt children. Use of the word childfree was first recorded in 1901 and entered common usage among feminists during the 1970s. The suffix -free refers to the freedom and personal choice of those to pick this lifestyle. The meaning

of the term childfree extends to encompass the children of others (in addition to one's own children), and this distinguishes it further from the more usual term childless, which is traditionally used to express the idea of having no children, whether by choice or by circumstance. In the research literature, the term child-free or childfree has also been used to refer to parents currently not living with their children, for example because they have already grown up and moved out. In common usage, childfree might be used in the context of venues or activities wherein (young) children are excluded even if the people involved may be parents, such as a childfree flight or a childfree restaurant.

In most societies and for most of human history, choosing not to have children was both difficult and socially undesirable, except for celibate individuals. The availability of reliable birth control (which has severed the link between sexuality and reproduction), more opportunities for financial security (especially for women), better healthcare (which has extended human life expectancy), and the ability to rely on one's own savings have made childlessness a viable option, even if this choice might still be frowned upon by society at large. Nevertheless, in some modern societies, being childfree has become not just more tolerated but also more common. In fact, various attempts by governments around the world to incentivize couples to have a child or to have more children have all failed, indicating that this is not a matter of economics but a cultural shift. In societies where children are seldom born out of wedlock, childfree individuals are likely to remain single as well.

College admissions in the United States

Another tool is the College Board's expected family contribution calculator that can give families an idea of how much college will cost, but not for any

College admissions in the United States is the process of applying for undergraduate study at colleges or universities. For students entering college directly after high school, the process typically begins in eleventh grade, with most applications submitted during twelfth grade. Deadlines vary, with Early Decision or Early Action applications often due in October or November, and regular decision applications in December or January. Students at competitive high schools may start earlier, and adults or transfer students also apply to colleges in significant numbers.

Each year, millions of high school students apply to college. In 2018–19, there were approximately 3.68 million high school graduates, including 3.33 million from public schools and 0.35 million from private schools. The number of first-time freshmen entering college that fall was 2.90 million, including students at four-year public (1.29 million) and private (0.59 million) institutions, as well as two-year public (0.95 million) and private (0.05 million) colleges. First-time freshman enrollment is projected to rise to 2.96 million by 2028.

Students can apply to multiple schools and file separate applications to each school. Recent developments such as electronic filing via the Common Application, now used by about 800 schools and handling 25 million applications, have facilitated an increase in the number of applications per student. Around 80 percent of applications were submitted online in 2009. About a quarter of applicants apply to seven or more schools, paying an average of $40 per application. Most undergraduate institutions admit students to the entire college as "undeclared" undergraduates and not to a particular department or major, unlike many European universities and American graduate schools, although some undergraduate programs may require a separate application at some universities. Admissions to two-year colleges or community colleges are more simple, often requiring only a high school transcript and in some cases, minimum test score.

Recent trends in college admissions include increased numbers of applications, increased interest by students in foreign countries in applying to American universities, more students applying by an early method, applications submitted by Internet-based methods including the Common Application and Coalition for College, increased use of consultants, guidebooks, and rankings, and increased use by colleges of waitlists. In the early 2000s, there was an increase in media attention focused on the fairness and equity in the college

admission process. The increase of highly sophisticated software platforms, artificial intelligence and enrollment modeling that maximizes tuition revenue has challenged previously held assumptions about exactly how the applicant selection process works. These trends have made college admissions a very competitive process, and a stressful one for student, parents and college counselors alike, while colleges are competing for higher rankings, lower admission rates and higher yield rates to boost their prestige and desirability. Admission to U.S. colleges in the aggregate level has become more competitive, however, most colleges admit a majority of those who apply. The selectivity and extreme competition has been very focused in a handful of the most selective colleges. Schools ranked in the top 100 in the annual US News and World Report top schools list do not always publish their admit rate, but for those that do, admit rates can be well under 10%.

Cost–benefit analysis

it is a morally much more questionable matter to discount other people's wellbeing. Carneades (2022). Are All Lives Equal? Why Cost-Benefit Analysis

Cost–benefit analysis (CBA), sometimes also called benefit–cost analysis, is a systematic approach to estimating the strengths and weaknesses of alternatives. It is used to determine options which provide the best approach to achieving benefits while preserving savings in, for example, transactions, activities, and functional business requirements. A CBA may be used to compare completed or potential courses of action, and to estimate or evaluate the value against the cost of a decision, project, or policy. It is commonly used to evaluate business or policy decisions (particularly public policy), commercial transactions, and project investments. For example, the U.S. Securities and Exchange Commission must conduct cost–benefit analyses before instituting regulations or deregulations.

CBA has two main applications:

To determine if an investment (or decision) is sound, ascertaining if – and by how much – its benefits outweigh its costs.

To provide a basis for comparing investments (or decisions), comparing the total expected cost of each option with its total expected benefits.

CBA is related to cost-effectiveness analysis. Benefits and costs in CBA are expressed in monetary terms and are adjusted for the time value of money; all flows of benefits and costs over time are expressed on a common basis in terms of their net present value, regardless of whether they are incurred at different times. Other related techniques include cost–utility analysis, risk–benefit analysis, economic impact analysis, fiscal impact analysis, and social return on investment (SROI) analysis.

Cost–benefit analysis is often used by organizations to appraise the desirability of a given policy. It is an analysis of the expected balance of benefits and costs, including an account of any alternatives and the status quo. CBA helps predict whether the benefits of a policy outweigh its costs (and by how much), relative to other alternatives. This allows the ranking of alternative policies in terms of a cost–benefit ratio. Generally, accurate cost–benefit analysis identifies choices which increase welfare from a utilitarian perspective. Assuming an accurate CBA, changing the status quo by implementing the alternative with the lowest cost–benefit ratio can improve Pareto efficiency. Although CBA can offer an informed estimate of the best alternative, a perfect appraisal of all present and future costs and benefits is difficult; perfection, in economic efficiency and social welfare, is not guaranteed.

The value of a cost–benefit analysis depends on the accuracy of the individual cost and benefit estimates. Comparative studies indicate that such estimates are often flawed, preventing improvements in Pareto and Kaldor–Hicks efficiency. Interest groups may attempt to include (or exclude) significant costs in an analysis to influence its outcome.

The Case Against Education

2014). "Why Germany Is So Much Better at Training Its Workers". The Atlantic. Retrieved August 14, 2019. Bachmann, Helena. "Who Needs College? The Swiss

The Case Against Education: Why the Education System Is a Waste of Time and Money is a book written by libertarian economist Bryan Caplan and published in 2018 by Princeton University Press. Drawing on the economic concept of job market signaling and research in educational psychology, the book argues that much of higher education is very inefficient and has only a small effect in improving human capital, contrary to the conventional consensus in labor economics.

Caplan argues that the primary function of education is not to enhance students' skills but to certify their intelligence, conscientiousness, and conformity—attributes that are valued by employers. He ultimately estimates that approximately 80% of individuals' return to education is the result of signaling, with the remainder due to human capital accumulation.

Diminishing returns

a certain point, that the quality of the land kept increasing, but so did the cost of produce etc. Therefore, each additional unit of labour on agricultural

In economics, diminishing returns means the decrease in marginal (incremental) output of a production process as the amount of a single factor of production is incrementally increased, holding all other factors of production equal (ceteris paribus). The law of diminishing returns (also known as the law of diminishing marginal productivity) states that in a productive process, if a factor of production continues to increase, while holding all other production factors constant, at some point a further incremental unit of input will return a lower amount of output. The law of diminishing returns does not imply a decrease in overall production capabilities; rather, it defines a point on a production curve at which producing an additional unit of output will result in a lower profit. Under diminishing returns, output remains positive, but productivity and efficiency decrease.

The modern understanding of the law adds the dimension of holding other outputs equal, since a given process is understood to be able to produce co-products. An example would be a factory increasing its saleable product, but also increasing its CO2 production, for the same input increase. The law of diminishing returns is a fundamental principle of both micro and macro economics and it plays a central role in production theory.

The concept of diminishing returns can be explained by considering other theories such as the concept of exponential growth. It is commonly understood that growth will not continue to rise exponentially, rather it is subject to different forms of constraints such as limited availability of resources and capitalisation which can cause economic stagnation. This example of production holds true to this common understanding as production is subject to the four factors of production which are land, labour, capital and enterprise. These factors have the ability to influence economic growth and can eventually limit or inhibit continuous exponential growth. Therefore, as a result of these constraints the production process will eventually reach a point of maximum yield on the production curve and this is where marginal output will stagnate and move towards zero. Innovation in the form of technological advances or managerial progress can minimise or eliminate diminishing returns to restore productivity and efficiency and to generate profit.

This idea can be understood outside of economics theory, for example, population. The population size on Earth is growing rapidly, but this will not continue forever (exponentially). Constraints such as resources will see the population growth stagnate at some point and begin to decline. Similarly, it will begin to decline towards zero but not actually become a negative value, the same idea as in the diminishing rate of return inevitable to the production process.

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