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The Earnings Expectations of Business Studies Undergraduates in Two English Universities: a case of credentialism? (0495)

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Introduction

The literature on the returns to education is abundant; however, most studies have estimated the rate of returns by using actual earnings data. According to human capital theory, young people will enter HE if the expected gain in earnings exceeds the cost of obtaining a degree (Gemmell, 1997). However, due to the reluctance of economists to use subjective data the research on students' own earnings expectations is still somewhat limited (Dominitz and Manski, 1996). While young people go to university for a variety of reasons, better career prospects and an increase in their earnings potential are undoubtedly some of the most important motivations behind the decision. Therefore, it is important to understand what may influence students' earnings expectations (Manski, 1993).

The Study

1878 first year and final year undergraduate business studies students at two post 1992 English universities in the Midlands and the North were surveyed. There has been only one previous study in the UK which has included student seniority (Jerrim, 2011). A mixed-methods approach was adopted – questionnaires and focus groups were used for data collection. A repeated cross-sectional study design was used - the survey was conducted every year between 2011/2012 and 2014/2015. In addition, focus groups with students were carried out to supplement the survey results. The quantitative data were subject to regression analysis.

Previous studies on students' earnings expectations have predominantly used a cross-sectional study design where data was collected only at one specific point in a time. While this study is not truly longitudinal (i.e. it does not follow participants over time) its repeated cross-sectional design allows the analysis of changes in students' expectations in the light of changes in the economy and government policy. Previous research has used almost exclusively quantitative data to analyse earnings' expectations. This is the first study which combines the quantitative data collected through questionnaires with qualitative data obtained during focus groups. This is also the first study which has examined the effect of expected "over education" on students' earnings expectations.

Findings

Female students expected lower initial graduate salaries than their male counterparts and the expected gender-pay gap was found to increase after 10 years in the labour market. Both Black and Asian British students had significantly higher earnings expectations compared to their white British peers. A positive link between parental income and students' earnings' expectations was found, but it was not statistically significant.

First year students were found to have significantly higher earnings expectations ten years after graduation compared to their final year peers. Final year students had lower earnings expectations

compared to their first year counterparts. However the result was not statistically significant. Final year students who expected to obtain a first class honours degree anticipated higher graduate starting salaries and their earnings expectations also grew faster with work experience compared to those expecting upper or lower second class awards. The effect was more pronounced for expectations 10 years after graduation (long lasting effect of a “good degree”?) Students who had undertaken a work placement in their third year of study expected their graduate earnings to grow at a faster rate during their first decade in the labour market. The result was statistically significant for 10 years after graduation.

Students who expected to have “non-graduate” job after graduation expected to earn less and those who were planning to be self-employed had higher expectations; however the results were not statistically significant. Students who planned to work in London had higher earnings expectations compared to those who intended to stay in their home regions, but the effect was not significant. Students who wanted to work abroad had significantly higher expectations compared to those who expected to stay in their home region. Although the difference was not statistically significant students who participated in focus groups believed that study abroad is valued by employers and improves graduates’ labour market prospects. However most students would only consider relocating abroad for a lucrative job offer.

Students believed that university prestige could influence their chances in the labour market. While they generally perceived their institutions to be well-respected by local employers, they did not think that graduating from their respective institutions would give them a competitive edge in the national graduate labour market. Students believed that employers tend to prefer graduates from elite institutions.

The phenomenon of “over education” in the labour market has been analysed by looking at the actual career paths of graduates. However, little is known about students’ perceptions of this problem. In this study, students were asked what they expected to do six months after graduation and how long it would take them to find a “graduate” job. Final year students who expected to be in a non-graduate type of employment after graduation also expected to incur a significant earnings penalty. We explored whether a sheepskin effect is evident in students’ expectations. The so-called sheepskin effect refers to “the difference in earnings between individuals possessing a diploma and those who do not, conditional on years of schooling” (Jaeger and Page, 1996: 733). In order to do so, final year students were asked to estimate their earnings under a hypothetical scenario where they would drop out of their course before graduation. This approach is unique and no other study has used students’ earnings expectations to try to identify a possible sheepskin effect. A significant sheep-skin effect was found; final year students expected to be penalised financially for leaving HE in their final year without obtaining a qualification.

Conclusions

In the light of the above findings, students’ perceptions of the link between HE and labour market outcomes were evaluated in the light of three theories (i.e. human capital theory, the screening hypothesis and credentialism). There have been only two studies (i.e. Killeen et al., 1999 and Sanquirgo et al., 2004) that have attempted to shed some light on this topic. Both these studies aimed their investigation at secondary school students. There has been no research focusing on university students. Many of the findings of this study support the credentialist explanation of the

relationship between education and labour market success. While human capital theory dominates the literature on returns to education, this study suggests that alternative explanations have some credibility and should be given greater prominence by researchers.

1035 WORDS