

Student Perceptions of the Financial Returns to Higher Education in the Czech Republic, Poland and England: Evidence from Business Schools (0131)

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Outline

1. Introduction

During the last fifteen years, there has been a growth of interest in the returns to higher education by policy makers. This has been due to increasing difficulty in funding higher education as student numbers have expanded. The fact that there are often substantial private returns to higher education has been used as a reason to shift the burden of funding higher education away from the tax payer and to the student – or sometimes to the graduate (Barr and Crawford, 2005).

This paper reports on data on students' perceptions concerning financial returns to their higher education studies in three Czech¹ and four Polish² faculties of economics and two English³ business schools. The study is unusual in focusing on the question of *perceptions* as most studies in this area have attempted to measure *actual* returns.

2. Measuring Returns to Higher Education

The estimation of private rates of return to education must take into account both the benefits and the costs of investment. Quantifiable benefits from the investment are the higher earnings usually experienced by more qualified workers and 'the costs incurred by the individual are his/her foregone earnings while studying and any education fees or incidental expenses the individual incurs during schooling' (Psacharopoulos and Patrinos, 2004; p4).

There are two main methods which are used to measure rates of returns to higher education. Both the elaborate (also known as the direct or full method) and indirect (also known as Mincerian function or human capital earnings function) methods have their advantages and

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disadvantages. This research uses the so called short cut method which is developed from the Mincerian function (Psacharopoulos, 1981).

3. Survey of Expected Earnings at Polish, Czech and English Universities

In the academic year 2009/2010 a survey⁴ of earnings expectations was undertaken of first year students at three Czech and four Polish faculties of economics and two English Business Schools. Students completed a questionnaire survey in Czech, Polish or English.

A large lecture for first year students, with a high attendance rate, was identified and all those who were present were asked to complete the questionnaire. Students from “foreign” countries were excluded from the sample since their perceptions of earnings in the country of study are likely to be different to those of “home” students. First year students were surveyed, during their first term, because their decision to enter higher education had been a recent one.

The first part of the questionnaire requested data relating to gender and age. In the second part the students were asked about their expectations of income (in current prices i.e. without taking into account price inflation), in their first job immediately after graduation and then after ten years of work experience. They were also asked about the level of earnings they would have expected if they had not entered higher education; both immediately after leaving school and after ten years of employment.

4. Main findings

Perceived rates of return were estimated using the short-cut method, which was adjusted to reflect different higher education funding systems. The findings indicate that there is a significant perceived pay off to higher education. Moreover, the returns increase with work experience suggesting that the benefits from higher education are larger in the medium term than immediately after graduation. Thus, the higher the level of an individual’s education and the greater his or her experience, the greater the salary expectations.

⁴ The survey was undertaken with the financial support of the University of Huddersfield and of GA ČR 402/04/0039 from the Grants Agency of the Ministry of Education of the Czech Republic.

The rates of returns were found to vary by country. The perceived returns to higher education are greater for English students (20.53%) than Czech (14.66%) and Polish (15.53%) students, despite Czech and Polish public university education being free of charge. The main reason for the difference in rates of returns between England and Central Europe seems to be the difference in time spent in higher education since in England university studies typically last three years whereas in the Czech Republic and Poland they last five years. The results suggest that students value a university degree at least as much as ten years of post secondary school labour market experience, which is noteworthy and not necessarily to be expected a priori.

Both earnings expectations and rates of return were found to vary by gender within the surveyed countries. In the Czech Republic, women expect lower earnings as well as lower rates of return, except for female students from Pardubice, whose rates of return are equal to those of men studying at the same institution. In Poland at both points of graduation (from high school and university) women expect to earn less than men at all institutions but their rates of return are equal at UMCS and Politechnika Lubelska and lower at the Catholic University of Lublin and at the University of Rzeszow. In England women expect equal salaries to those of men at all points in time. The same is true for rates of return except for women studying at the University of Huddersfield, who expect higher rates of return than men at the point of graduation.

5. Conclusions

Earnings expectations and rates of return vary by gender as well as by country. Nevertheless the findings show that overall students expect positive returns to their higher education studies and thus perceive higher education to be a profitable investment. Policy makers would be well advised to track changes in the perceptions of not only university students but also of high school leavers. Once the perceived costs outweigh the perceived benefits, regardless of whether or not there are actual returns to higher education, the demand for higher education may decline. Therefore students' perceptions of returns to higher education is a useful proxy indicator of the demand for higher education at any particular point in time, at least in vocationally oriented subjects such as economics or business studies.

References

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