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Earning Expectations of University Students: Evidence from English Business Schools (0070)

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## **Outline**

In today's knowledge economy, tertiary education has been seen as an economic necessity in developed countries. Higher education can bring significant benefits not only to society but to graduates as well. Previous research has shown that the average graduate may get an earnings premium of approximately £150,000 over their working life compared to a non graduate counterpart (O'Leary and Sloane, 2005). However, the financial returns to a Bachelor degree have been falling since the 1990s (Chevalier et al., 2004). Recent graduates may face difficult job prospects as graduate unemployment remains high and starting salaries have stagnated for the last three years (HECSU, 2012; High Fliers Research, 2012). Finally, tuition fees of up to £9000 became a reality for English students who entered university during the academic year 2012/2013.

Although a number of studies have attempted to calculate the so called graduate premium, only a few have investigated students' expectations about their future earnings. In our research, we surveyed the graduate salary expectations of current students. A questionnaire was distributed to Business school students at two English universities. The data were collected from first year Bachelor students at the beginning of the academic year and final year Bachelor students were surveyed towards the end of their course.

Students were asked about their wage expectations under two scenarios – immediately after graduation and ten years after graduation. First year students tend to have higher salary expectation which is in agreement with previous studies (Brunello et al., 2004; Jerrim, 2011). This can possibly be explained by the better labour market awareness of final year students. We found that a majority of final year students are applying for graduate jobs before they graduate. They are also more likely to have some work experience although around 45% of first year students in our sample had a part-time job during their studies.

Another factor which may influence wage expectations is gender because a gender pay gap exists in the labour market. Our data suggest that the starting salary expectations of female students are very similar to those of their male peers. However female students expect to earn lower salaries than their male counterparts ten years after graduation. Our results indicate that gender can explain up to 5% of the variability in earnings expectations 10 years after graduation.

Earnings expectations could be influenced by students' ethnicity. Ethnic minority students are less likely to achieve a first class honours degree than their white British counterparts (Richardson, 2008). However we find that ethnic minority students expect to earn more, both immediately after

graduation and 10 years later, compared to their white peers, which is in line with Speed (2007). Immediately after graduation white students expect to earn approximately £22,000, while ethnic minority students expect to earn £25,000. Ten years after graduation white students expect to earn £43,000 and ethnic minority students £47,000. Our data also show that Asian students are also more likely to be local and less willing to relocate for a graduate job. Nevertheless, low labour market mobility is apparent among white students too as most students surveyed were studying in their home region and were planning to stay in the region after graduation.

Students who undertake a work placement are more likely to be employed after graduation and their starting salaries tend to be higher (Papadatou, 2010). There are three possible explanations. Firstly, successful work placement can lead to a permanent job offer upon graduation. Secondly, students who complete sandwich courses have a better chance of obtaining a “good” degree (Mandilaras, 2004) which enhances their employability. Thirdly they may be more able in the first place. In our sample, students who had undertaken a work placement expect slightly higher starting salaries (£20,000 vs. £21,000) but the difference is more noticeable 10 years after graduation (£40,000 vs. £51,000).

Degree classification is important in England since many recruiters use a 2:1 classification as a minimum entry level. Better grades are also associated with higher starting salaries (Ramsey, 2008). A similar pattern was observed in our research. Students who expect to achieve a first class honours degree expect to earn approximately £1000 more per annum after graduation than students with an upper second but the difference is approximately £12000 10 years after graduation. However, it has to be noted that a good number of students have probably overestimated their final degree classification since approximately 90% of students anticipate obtaining a “good” degree. According to published data on actual attainment, for earlier cohorts of the students surveyed the figure is not likely to exceed 70 per cent.

The universities involved in this research are both post-1992 universities. One is situated in Yorkshire and the other one in the West Midlands. Students in the West Midlands have higher salary expectations for all scenarios compared to their counterparts in Yorkshire. As 75% of the students sampled plan to stay within their region after graduation, this can possibly be explained by higher average wages paid to workers in the West Midlands (Office for National Statistics, 2011).

Despite the difficult economic situation, students tend to be optimistic about their future prospects. More than 80% of students are expecting to be in a graduate job six months after graduation. In order to improve their chances in the labour market, recent Bachelor graduates are more likely to pursue a Master degree. Nevertheless, in our sample the number of students who intend to obtain a higher qualification in the short term could be counted on the fingers of one hand. Even though “over-education” is believed to be a problem in the UK (Barone and Ortiz, 2010), few students expect to be in a non-graduate job or to be unemployed.

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