

## **The earnings expectations of EU business school students**

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### **1. Introduction**

The significant influence of expectations on schooling decisions would suggest that there has been a vast body of economics literature on the subject of student perceptions and expectations. This is not the case, however, since, as Manski (1993) commented, ‘the profession has traditionally been skeptical of subjective data; so much so that we have generally been unwilling to collect data on expectations’ (p.43). As Dickson & Harmon (2011) note: “we need to use social experiments in education more substantively” (p.1122). In fact, only a few studies have investigated earnings expectations within an educational context.

This study investigates whether students expect their earnings to be higher with a university degree than without it, and whether they expect the slope of experience–earnings profiles to vary with educational attainment. Like Dominitz & Manski (1996) and Brunello et al. (2004), we are interested in *personal* earnings prospects under different scenarios, rather than the prospects of a *typical/average* graduate, which was the case in some studies (e.g. Bothelo and Pinto, 2004). Like Dominitz & Manski (1996) and Brunello et al. (2004), we elicit subjective earnings distributions from our respondents by asking them to estimate their expected earnings with and without a university degree at two points in time – at the time of labour market entry and ten years later.

As with Dominitz & Manski (1996), we have collected information on expected earnings at three levels – the lowest possible, most likely and the highest possible earnings. Although we cannot be exactly sure whether respondents assign the same probabilities to different levels of

earnings as their peers, we believe that the three values provide sufficient information on the individuals' own subjective earnings distributions under different scenarios. The middle value is thought of as the median<sup>1</sup>, where there is a 50% chance of earning more or less. The lowest possible expected earnings have the greatest level of probability of being obtained, while the highest possible expected earnings have the lowest probability of being obtained. However, whether our respondents expect to earn the lowest possible wages with for example 90% or 80% certainty is unknown.

## **2. Methods**

The data were collected using a questionnaire, which was distributed to first year students in ten higher education institutions across four European countries at the beginning of the academic year. The design of the sample relied on personal contacts in some countries because the questionnaire could not be administered directly by the authors in every location. As a result, we have a fairly representative and comprehensive sample in the Czech Republic, Poland and England; less so in Portugal. Given the sampling strategy adopted, this should be considered as a convenience sample.

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 during the first few minutes of the lecture. Those who were from foreign<sup>2</sup> countries were asked to state it on the

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<sup>1</sup> Most likely median earnings explained in the questionnaire as 'earnings with a 50% chance of earning more or less'

<sup>2</sup> i.e. different to the current country of study

questionnaire. Their responses were then excluded from the sample since their perceptions of earnings in the country of study are likely to be different from those of the indigenous population. 1511 valid questionnaires were retained and subjected to further analysis.

The questionnaire began with general questions relating to gender and age. In the second part, 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 (UNI) and then after 10 years of work experience (UNI 10). 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 (SS) and after 10 years of employment (SS10). In all four cases, the expectations were obtained at three levels: the lowest possible (LP), most likely (ML) and the highest possible (HP) earnings. The expected earnings were expressed in the traditional ways of doing so in the respective countries<sup>3</sup>. Because our data are from different countries in Europe, we transform expected earnings into a common currency and a common unit of time, i.e. Euro/year.

## **1. Findings**

Earnings expectations, as well as uncertainty about expected earnings, were found to vary between as well as within the respondent groups. English students expect the highest earnings of all the surveyed countries, whilst being most certain about their earnings prospects. In contrast, Polish students reported the lowest expected earnings and at the same time are the least certain about their earnings. When statistically significant, Portuguese students expect lower earnings with greater uncertainty than their Czech peers, but higher earnings than their

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<sup>3</sup> Monthly in the Czech Republic, Poland and Portugal; annually in England

Polish counterparts with a lower level of uncertainty. Polish and Czech men in our samples expect higher earnings than women, while hardly any significant gender differences have been identified in our English and Portuguese samples. Generally men were found to be more uncertain about their earnings prospects than women, with one exception being the expected earnings as university graduates. In this case both genders are similarly uncertain about their earnings prospects.

Despite the within- and between-group variations, we have identified some common patterns, namely: students' earnings prospects are rather uncertain; expected earnings are found to increase with education and experience, and students expect faster and further growth of their future earnings with a university degree than with a secondary education qualification only. This suggests that students expect their experience-earnings profiles to be steeper after completing a university education than after completing secondary education only. Hence, higher education is expected to provide not only an initial labor market advantage but also a permanent advantage that increases with time.

## **2. Conclusions**

The finding that female students in the Czech Republic and Poland expect lower earnings than their male counterparts but that there is no gender gap in expectations in England and Portugal reflects an interesting "east/west" split. The gender differences between countries identified by this study are not in fact reflected in reality. In all four countries studied, there is a significant gender gap in earnings overall, although the size of this gap does vary over time and from country to country (Hubbard, 2011; OECD, 2011).

The survey results reveal international differences in the degree of certainty associated with earnings expectations. It would be interesting to see if these findings are replicated in other

academic subject areas. It would also be helpful to have a greater understanding of the factors which influence the process of earnings expectations formation by university students.

### References

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