

Does Raising the Sticker Price Make a College More Attractive?

Idea for Future Research

By James Sly

One of the most controversial trends in higher education has been the alarming rise in the sticker price at selective 4 year private colleges. Even though the actual price students pay is much lower, this still has led to a considerable debate about whether the benefits a student would get from attending one of these schools is really worth the cost. On Minnesota Public Radio, they did an interview with the president of the University of St. Thomas, a selective private 4 year Catholic liberal arts college in Minnesota, and during this interview she was asked about the dramatic increase in the school's sticker price. She indicated that whatever money the school gained from the higher sticker price, they gave back in financial aid, so that the school did not increase the total amount of revenue coming from net tuition payments after financial aid was considered. Later on in the interview, she even suggested that students prefer paying \$20,000 a year for a college with a high sticker price after financial aid is taken into account, compared to just having all students pay \$20,000 a year in tuition without any financial aid.

This exchange indicates that the considerable increase in the sticker price at these selective 4 year private colleges might not be an unavoidable feature necessary to raise the requisite funds schools use to pay for expenses, but instead a deliberate pricing mechanism designed to make the school more attractive. Colleges could actually see demand for their schools go up after raising prices because students from high income families would have no trouble paying the extra tuition, while the school would become more attractive for students from middle income families because they feel like they are getting a better deal once financial aid is taken into account, where they would be getting a more expensive education at the same price. This almost certainly does not hold true for 4 year public colleges, where studies have shown a lower sticker price does encourage more people to attend college, but could be true for selective 4 year private colleges, where a higher sticker price could be seen as an indicator of quality or status, much as you might see in the market for other luxury goods where higher prices might actually increase demand for your product.

For one of my research projects, I would like to test this hypothesis to see if a higher sticker price increases or decreases demand for selective 4 year private colleges. To do this, my plan was to use the data collected by US News and World Report for the best universities (excluding public ones) and the best liberal arts colleges on their overall sticker price and the number of applications a college receives each year. The strategy for the paper would be to use the overall rank for each school and then divide them up into pairs based on consecutive rank, where the top ranked school would be paired with the second best, the third best with the fourth, all the way down the line until the college ranked 49th is paired with the 50th best college. The analysis would then compare the difference in tuition growth between these matched schools and compare it to the difference in the growth of applications received,

allowing you to see whether higher tuition growth led to increased or decreased demand for your college while controlling for a lot of other variables through the matching procedure. This could be done both for private national universities and for liberal arts colleges, and the connection could be examined for changes from year to year, as well as for changes that occur over 5 years or 10 years. If it turns out that a higher sticker price increases demand for a college, it would be important to test to see if it is higher tuition causing higher demand or higher demand causing higher tuition. To take care of this problem, the analysis could identify the colleges with the highest growth in tuition and see if it was an increase in applications that occurred before the rise in tuition or if the rise in tuition occurred before the rise in applications.

If completed, this paper could shed some valuable light on the underlying causes of the alarming rise in sticker price among selective private 4 year colleges, where perhaps this trend does not reflect the preferences of colleges to collect as much money as they can from their students, but instead reflects the preferences of students who prefer to go to school they see as more valuable as indicated by their higher sticker price.