

Chapter 9 Review Questions.

Investments in Human Capital: Education and Training.

1. Fred could get a job at \$20,000 per year with only a high school degree. If he goes to college, he would pay \$5000 tuition per year (for 4 years), but would earn \$22,000 per year. His wage would not grow over time under either scenario. Under either scenario, he will retire at age 65 (thus work 47 years if start after high school, 43 years if start after college).
 - a. Is the rate of return on a college education above zero? Explain.
 - b. Suppose that there is a progressive income tax system. How, if at all, would this affect the (after-tax) rate of return on the education investment?
 - c. If Fred chose to retire at age 70 instead of 65, would the rate of return on the college education be higher or lower? Explain.
 - d. Other things being the same, would you expect that a person who plans to retire at age 70 would be more or less likely to pursue a college degree than a person who plans to retire at age 60. Explain.

2. Forty years ago, women were less likely to pursue a college education than men. Today, the reverse is true. Using the “rate of return to education” concept, what changes have occurred over the past 40 years that could explain this reversal?

3. It is well documented that men and women choose very different majors in college, though these differences have diminished over time. Explain how each of the following considerations may explain this pattern: (a) willingness to invest in general versus specific capital; (b) the depreciation of human capital when time is spent out of the labor force; (c) socialization; (d) anticipated discrimination.

4. Suppose that John attended college and upon graduation earned a salary of \$40,000. Jack did not attend college and earned a starting salary of \$25,000. Explain why the \$15,000 per year earnings differential may be (i) an overstatement of the effect that college would have on Jack’s earnings; or (ii) an understatement of the effect that college would have on Jack’s earnings.