



# The effect of university attended on graduates' labour market prospects: A field study of Great Britain<sup>☆</sup>



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## ABSTRACT

Utilising data for comparable B.Sc. graduates in economics who have studied in different universities that had set the same entry standards, we compare job seekers' employment prospects when they search by themselves for jobs by submitting CVs to the same firms. The outcomes suggest that graduates who studied in universities that are ranked in better positions, based on the UK league tables, gain more invitations to interviews (access to vacancies) and higher entry-level annual salaries than those who studied in universities that are ranked in lower positions. To clarify the assigned pattern, we utilised further qualitative indicators, and we estimated that both membership of a scholarly group of universities and universities' research intensity can positively affect their graduates' invitations to interviews and entry-level annual salaries. Interestingly, by assessing the influence of degree grades, the study suggested also that applicants' degree grades can moderate the relation between university attended and employment prospects.

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## 1. Introduction

A persistent question in the empirical literature is whether the university attended and its corresponding quality indicators affects graduates' prospects in the labour market. Studies emphasise that convincingly estimating the economic returns based on the university attended requires overcoming the biases arising from the fact that at-

tendance at a better-quality university is likely to be correlated with unobserved characteristics that will themselves affect future earnings (Broecke, 2012; Hoekstra, 2009). Unobserved characteristics in relation to students' motivation, commitment, ability, skills, and personality characteristics, may be rewarded in the labour market (Brewer, Eide, & Ehrenberg, 1999; Dale & Krueger, 2002; Hoekstra, 2009). That is, more able students studying in more reputable and selective universities may have the desirable characteristics that firms require. In addition, students' socioeconomic backgrounds, such as family characteristics, parental support and networks, could affect their labour market outcomes, and thus some students may have greater employability and salary capacity regardless of the university attended (Brewer et al., 1999; Dale & Krueger, 2002; Hoekstra, 2009). The literature concludes that, based on these difficult-to-control unobserved characteristics, firm conclusions on the relation between university attended and labour prospects cannot be drawn.

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Ideally, in order to minimise the omitted-variable bias problem and evaluate the effect of university attended on graduates' employment prospects, research should utilise two identical graduates with the same pre-university characteristics, who have studied in different universities that set the same entry standards, and it should compare their employment outcomes when they search by themselves for a job. In the current study, we have attempted to use a comparable method. Through a field experiment, we evaluate whether comparable third-year university students who have obtained a B.Sc. in economics from different UK universities which have the same entry criteria, thus being the same selective group, face different labour market prospects when applying to the same firms.

This study contributes to the literature in three ways. First, this study is one of the first field studies to collaborate with real university students to estimate the effect of university attended on their invitations for interviews (i.e. access to vacancies) and entry-level salaries, minimising unobserved heterogeneities that would themselves affect subsequent outcomes in the labour market. Based on the data-gathering design, we can observe as much information as the firms themselves. Working with students who have studied in universities with the same entry standards and acquired the same degree grades, we attempted to solve the problem of firms seeing more information than researchers by looking at an outcome that is determined before firms see any unobservable characteristics. Due to the study's design, job search-related support networks and family characteristics cannot affect applicants' employment prospects by default. This feature enables the research to overcome core biases arising from the fact that attendance at a selective university is likely to be correlated with unobserved characteristics that will themselves affect labour market prospects (Broecke, 2012). Secondly, having minimised the effect of the aforementioned core unobserved heterogeneities, we offer clear evaluations of how universities' quality differences, such as membership of a scholarly group (Russell Group membership<sup>1</sup>), research intensity (Research Assessment Exercise), and students' satisfaction (National Student Survey), affect their graduates' invitations to interviews and entry-level annual salaries. Thirdly, in this study we further analysed students' degree grades, in order to examine whether degree grades can moderate the effect of university attended in relation to students' invitations to interviews and entry-level annual salaries. Having minimised core heterogeneities, the design of this study will enable us to offer straightforward evaluations by capturing patterns in the field on the relation between university attended and students' labour market prospects. Thus, this study aims to provide evaluations of three main questions:

- (1) Can the university attended affect graduates' invitations to interviews and entry-level annual salaries?
- (2) Can universities' membership of a scholarly group (Russell Group), research intensity (RAE score), and

students' satisfaction (NSS score) affect graduates' invitations to interviews and entry-level annual salaries?

- (3) Can university grades obtained moderate the relation between universities attended and graduates' invitations to interviews and entry-level annual salaries?

In what follows, the next section provides a review of the literature on the effect of higher education quality on graduates' earnings. Section 3 describes the methodology in detail. Section 4 presents descriptive statistics, and Section 5 presents the results followed by a discussion.

## 2. Literature review

All studies in the UK, and the majority of those in the US, suggest that a better-quality university positively affects its graduates' earnings. In the UK, Chevalier and Conlon (2003) estimated that graduates from better-quality universities gain an earning premium of approximately four percentage points. To measure universities' quality the authors utilised membership of a scholarly group of universities (Russell Group). Also, Hussain, McNally, and Shqiponja (2009) found that one standard deviation in university quality is associated with an earning premium of the order of six percentage points. Several quality indicators were utilised, such as university entry standards, research intensity and faculty-student ratio. Moreover, Broecke (2012) estimated that a one standard deviation improvement in high school leaver university applications increases earnings by seven percentage points. In addition, Drydakis (2015) found that university entry standards positively affect graduates' entry level annual salaries (between 5.3 and 16.4 percentage points).

In the US, Black and Smith (2004) found that earnings premiums are approximately eight percentage points for graduates attending a better-quality university. The authors used university entry score indicators, fee differentials and faculty salary to measure quality. Similarly, Hoekstra (2009), using entry score as a quality indicator, estimated that graduates from better-quality universities receive 20 percentage points higher earnings. Also, Black and Smith (2006) estimated that university quality, as measured by entry standards, mean faculty salaries and faculty-student ratio, affects graduate earnings by four percentage points. Alternatively, in the US, two studies suggest that better-quality universities do not result in higher earnings (Dale & Krueger, 2002; 2014). Exemptions exist for black and Hispanic students, and for students who come from less well-educated families (Dale & Krueger, 2014).

In the examined literature, the reward for higher education in a reputable university is envisioned as the combined effect of human capital accumulation and of being identified as a skilled individual (Dobbs, Sun, & Roberts, 2008; Kjelland, 2008). Higher-ranked universities might attract better-qualified students in terms of academic ability and motivation when the admission system is selective (Hoekstra, 2009). Also, it might be the case that higher-ranked universities provide better education because of better resources, infrastructures and academic

<sup>1</sup> In Appendix A, we provide information regarding UK university entry standards, Russell Group membership, the Research Assessment Exercise and the National Student Survey.

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