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Richard E. Romano, Alessandro Tampieri

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Arts vs Engineering: Choosing Consumption of and Investment in Education¹

Richard E. Romano² and Alessandro Tampieri³

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Abstract

We develop a model in which students choose their college coursework based on both investment and consumption incentives. These education decisions are socially inefficient. This result is driven by the fact that students do not consider an externality in the working environment of acquiring education for investment purposes. Regulated tuition fees have more potential to induce socially optimal outcomes than regulating levels of education given information constraints. The model can help explain several empirical regularities in the education literature.

JEL Numbers: D62; H21; I21.

Keywords: education consumption; education investment; tuition fees; externality.

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² Department of Economics, University of Florida, email: romanor@ufl.edu.

³ Center for Research in Economic Analysis, University of Luxembourg, email: tamp79@gmail.com.

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