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Information, college decisions and financial aid: Evidence from a cluster-randomized controlled trial in China



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ABSTRACT

Past studies find that disadvantaged students in the United States are often misinformed about college costs and financial aid opportunities and thus may make sub-optimal decisions regarding college. This information problem may be even more serious in developing countries. We therefore conducted a cluster-randomized controlled trial to examine the effects of providing information on college costs and financial aid to high school students in poor regions of northwest China. We find that information increases the likelihood that students receive some types of financial aid. Information also positively affects the choice to attend college but does not seem to affect more specific college choices.

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1. Introduction

Recent research underscores the effect of college costs and financial aid on educational outcomes (Long, 2008). Increased financial aid can improve college outcomes by lowering the price of college and loosening credit constraints (Dynarski, 2002). Empirical studies find positive effects of merit aid (Cornwell, Mustard, & Sridhar, 2006), needs-based aid (Kane, 1996) and educational loans (Dynarski, 2003). The effects are multidimensional; financial aid raises college attendance (Linsenmeier, Rosen, & Rouse, 2006), increases enrollment (Van der Klauuw,

2002), prolongs attendance (Bettinger, 2004) and influences college choice (Avery & Hoxby, 2003). As the cost of college in a net sense (that is, total cost minus the contribution of financial aid) is potentially of greatest concern to students from disadvantaged backgrounds, a number of studies focus on the effects of financial aid on lower-income and minority students (e.g. Linsenmeier et al., 2006).

Despite the importance of financial aid on student outcomes, students and their parents may not have complete or correct information about the costs of college and financial aid options (ACSFA, 2005; Horn, Chen, & Chapman, 2003; Ikenberry & Hartle, 1998). This information problem is especially prevalent among low-income families and minorities (Horn et al., 2003; Kane & Avery, 2004; McDonough & Calderone, 2006). According to several studies, if students and their parents overestimate the expected net costs of higher education (which includes underestimating the probability of receiving financial aid),

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they are less likely to attend college; they may choose colleges of lower quality; and/or they may fail to apply for all of the available sources of financial aid (Long, 2008; Commission, 2006). As a consequence, differences in access to information about financial aid and college costs among the population of potential college students may in part explain why disadvantaged groups tend to have more difficulties attending college (Long, 2008).

To address this information problem, governments, universities and other private organizations in developed countries provide students and their families with steadily improving access to low-cost (or free), user-friendly materials about college costs and financial aid (Perna, 2006). Some organizations offer comprehensive intervention packages that include college counseling, mentoring and pre-college preparation programs (Kane & Avery, 2004; Long, 2008). The assumption is that the information conveyed through such materials and services helps students make better decisions. However, such assumptions are based on perception and not evidence. In fact, we are only familiar with one concurrent study in the United States that utilized experimental methods to evaluate the causal effects of providing this kind of information on college outcomes (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2009).

This paper contributes toward closing this gap in the literature by presenting experimental evidence about the effects of providing college cost and financial aid information on a student's choices of college, their persistence to go to college, and their likelihood of receiving aid. Specifically, in this paper we present results from a cluster-randomized controlled trial conducted across poor counties in Shaanxi province in Northwest China. During the intervention, designed and implemented by the authors, trained enumerators provided senior high school students in 41 high schools with comprehensive, user-friendly information about college costs and financial aid. After conducting a baseline survey and intervention in April 2008, we followed-up with students eight months later and inquired about three main outcomes: what college did they choose to apply for; did they attend college, and did they receive financial aid. Our results indicate that college cost and financial aid information increased the probability that students attended college and received certain types of financial aid. The results also suggest that information had no significant impact on whether students chose to go to (free) military college or more select tiers of colleges.

The findings of this paper may be of interest to policymakers in China. In 2007, the State Council implemented a new financial aid policy that, for the first time, provided extensive coverage and substantial funding to eligible students. Yet descriptive evidence, including our own baseline survey data, indicates that a significant proportion of students in their last year of high school, especially those of lower socioeconomic status, are not adequately familiar with the financial aid opportunities granted by this policy or even with college costs in general (Shi et al., 2007). According to the findings of the current paper, China's education system should provide more information to students so as to increase

college attendance and help students take advantage of the financial aid available to them.

The rest of the paper is organized as follows. Section 2 describes the costs of attending college in China and introduces different types of financial aid instruments that are currently available to students. Section 3 explores how students in China are acquiring information about college costs and financial aid. In this section we also discuss how greater access to information may affect the college outcomes of students. Section 4 lays out the hypotheses. Section 5 describes the intervention, the cluster-randomized research design, the data, and the analytical models. Section 6 presents the results of the analysis and Section 7 concludes.

2. College costs and financial aid opportunities in China

In 1999 the central government embarked on an ambitious initiative to expand higher education. Four-year college undergraduate enrollments grew from 2.7 million in 1999 to over 10 million in 2007 (National Bureau of Statistics of China, 2008). The number and diversity of higher education institutions (HEIs) also increased. Two years earlier, in 1997, cost-sharing (implemented in large part to finance the expansion of the college system) and financial aid also emerged in China's higher education system.

Together, the new cost-sharing policies, the expansion in enrollments and greater institutional differentiation combined to dramatically increase the public's concerns about the affordability of college. Scholars and educators began to discuss the challenges families faced in affording college (Chen & Zhong, 2002). In response, China's government began establishing policies for controlling college costs (MOE, NDRC, MOF, 2003) and introducing financial aid instruments that have steadily grown in scope and complexity.¹

While college costs have grown everywhere, they vary systematically across the higher education landscape (Table 1).² College costs in China are fixed by policymakers in different agencies at both the central and provincial levels. Policymakers control tuition according to an institutional hierarchy that exists within the higher education system (rows 1–4). The two most selective university tiers, tiers one and two, are generally comprised of four-year public universities which admit only students with the highest college entrance exam scores. Paradoxically, college costs at these universities are relatively low compared to those of the less competitive four-year private institutions that comprise tier three universities. The costs of tier four colleges are similar to those of tier one and two. Tuition fees also vary across different provinces and universities (columns 1–3). In fact, college costs can even

¹ "Costs" in this paper refers to tuition fees and other direct college expenditures (e.g. dormitory fees) from the perspective of students and families.

² In this section we discuss tuition fees. Other college fees have been capped by government policies. For example, dormitory fees across all university types cannot exceed 1200 RMB (about 180 US dollars) per year (MOE, NDRC and MOF, 2003).

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