**Is a College Cap and Gown a Financial Ball and Chain?**

*“A college education is not a quantitative body of memorized knowledge salted away in a card file. It is a taste for knowledge, a taste for philosophy, if you will, a capacity to explore, to question, to perceive relationships, between fields of knowledge and experience.”*

—A. Whitney Griswold, president of Yale University, 1951-63

The cost of a four-year college education has risen roughly 150 percent since 1980. For this and other reasons, more and more students must take out student loans to finance their education. Upon graduation, many find they have accrued a sizable debt. Given the significant expense, some question the value of earning a college degree. However, along with the rising cost, the lifetime earnings difference between college and high school graduates has widened. The increased earnings potential of a bachelor’s degree allows a college graduate to recover the cost of college over time and eventually surpass the earnings of those with only a high school diploma.

The College Board estimates that for the 2010-11 school year the average cost of a four-year college education is $37,000 per year at a private nonprofit university and $16,000 per year at a public university. Over the past decade, the real cost of attending a four-year university increased an average of 3.6 percent per year. In contrast, for the same period, real personal income increased an average of only 2.1 percent per year (Chart 1). Consequently, more families turn to student loans for college funding. The College Board estimates that the percentage of students with federal student loans increased from 27 percent in 2004-05 to 35 percent in 2009-10. While estimates vary, a typical 2009 college graduate accumulated $24,000 in student loan debt, up 6 percent from the previous year.

For college to be a good investment, the benefits of a degree (e.g., higher pay) must outweigh the opportunity cost of attending. In this case, the opportunity cost is the sum of tuition and housing costs plus the wages that would have been earned from working directly after graduating from high school. Recent data show that while the cost of college increased, the labor-market value of a bachelor’s degree climbed to an all-time high (Charts 2 and 3). In 2008, college graduates earned on average 77 percent more than high school graduates. Also, from 1998 to 2008 the difference between the median earnings of those with a bachelor’s degree and those with only a high school diploma increased by approximately 23 percent. This increased earnings potential allows college graduates to “catch up” relatively quickly in terms of net lifetime earnings.

According to the College Board, recent college graduates who completely financed their education with student loans will earn enough by age 33 to cover the cost of those loans and match the to-date lifetime earnings of those the same age with only a high school diploma. Thus, the opportunity cost of attending college is recovered over time. A college degree also lowers the probability of unemployment: From 1998 to 2011 the average unemployment rate for those with at least a bachelor’s degree was half that of those with only a high school diploma. Overall, a college degree still remains a wise investment.

—By Lowell R. Ricketts, Research Associate

QUESTIONS:  
1. As college costs have risen, how have many students chosen to pay for college? (Many students have taken out student loans to finance their education.)

2. How has the cost of obtaining a college education risen compared to the ability to pay for it (average personal real income)? (Real personal income has increased an average of 2.1 percent per year, while the real cost of attending a four-year university has increased an average of 3.6 percent per year.

Teacher note: The word “real” means that the data have been adjusted for inflation.)

3. To an economist, the true cost of going to college is the opportunity cost. What is the opportunity cost of attending college? (The opportunity cost is the wages that a student could earn from working full time rather than attending college.)

4. In the end, is a college education a good investment? Write a detailed response using data to support your answer.