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**Thinking Seriously About Paying for College:  
The Large Effects of a Little Thought**

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THINKING SERIOUSLY ABOUT PAYING FOR COLLEGE: THE LARGE EFFECTS  
OF A LITTLE THOUGHT

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The high price of attending college has generated a great deal of discussion and some heated controversy in recent years. In 1996 Newsweek carried a cover story with a headline proclaiming "\$1,000 a week: the scary cost of college." A recent Boston Globe column pictured a family hunched over a table with a tuition bill and a calculator trying to figure out how to pay the price: "The tuition alone is astronomical. Add in mandatory fees, housing, textbooks, equipment--it's overwhelming. Even if they qualify for financial aid, they're still looking at crushing bills" (Jacoby, 1997). While economists have written thoughtfully about the issue of college affordability, the media have generally fed the popular conception that college prices are unreasonable, unjustified, and unpayable.

In the context of thinking seriously about the ways colleges and universities ought to approach the difficult issue of pricing, it might be helpful to know something about the way students think about the amount they pay, and what they get for their money. Our research suggests that while students tend to think that colleges charge too much, a little information and a little thought often leads them to change their opinions. Their initial judgments about the reasonableness of college charges appear to be negative reflexive reactions based on popular

treatments of the price issue, such as those noted above. However, students revise those initial judgments when they've thought a little more about what they're getting for what they're paying.

### The impact of subsidy information

Our first studies asked whether students have much understanding of how much it costs colleges to produce their educations. We suspected that they knew very little, and that being clued in might change their thinking. The facts of the matter are these: colleges and universities subsidize their students' educations to a high degree, especially when the costs of the services provided by land, buildings, and equipment are considered (Winston & Yen, 1995). The subsidies, funded by state allocations or by private endowments and alumni contributions, are particularly large at elite colleges and universities. For example, Winston and Yen report that the 10% of public schools that offer the most generous subsidies actually support 94.5% of the total cost of producing their students' education; the 10% most generous private institutions subsidize 75.3% of their students' education. How much do students know about these subsidies, and how does information and thought about them affect judgments of fairness?

We explored these questions with students at an elite private liberal arts college in the northeast and at an elite

private university in the southeast, and at flagship state universities in the same states as the two private schools. We first asked students to indicate how fair or reasonable they rated their school's total student charges. They were also asked to estimate how much their schools spent for the total undergraduate experience of each student, considering all costs, including instruction, room and board, financial aid, athletics, health services, "and the portion of services such as the library and computer center, buildings and grounds, and administration that supports instruction." Next subjects were told the actual amount spent, and the percentage of their educations that were subsidized by state funding or private endowments or gifts. The stated subsidy amounts were conservative estimates based on operating budgets and annual capital spending figures. In all cases they exceeded total student charges, by an average of nearly 100%. Finally subjects were asked to rate the fairness of the charges again. In addition, students at the private schools were asked the same questions about the public school in the same state, and vice-versa.

The results for all four groups of subjects were remarkably consistent. First, students generally rated their own school's charges as more "reasonable" than "unreasonable." Second, for the most part students underestimated the degree of subsidy, especially, at the private schools. In fact, while students at the private liberal arts college in the northeast understood that

there was a subsidy--though they underestimated its magnitude--students at the other three schools thought that the private school they judged charged about \$10,000 more than it spent per student, and thus was making a large profit on each one. Students did estimate that there was a degree of subsidy at the public schools, but in some cases they underestimated its size by as much as \$12,000. Our major finding, however, was that when students were told about the degree of subsidy, which were actually somewhat higher in percent terms at the public schools, they rated the private school's charges as considerably more reasonable, while they did not change their judgment about the reasonableness of the public schools. In fact, the students at the two northeastern schools ended up rating those two schools, the public and the private, as being equally reasonable in their charges. All four groups of students ended up thinking that both schools prices were more reasonable than unreasonable. Similar findings were obtained from a group of public school teachers in the northeast who were asked the same questions about the two northeastern schools.

Taken together these findings suggest that students and school teachers have different conceptions of the finances of public vs. private institutions of higher education. They are aware that state universities subsidize their students' educations. They understand providing a publicly supported education is, in some measure, their role in society. Thus they

do not judge their prices differently when they learn the amount of the subsidy, even if they underestimate it by a large amount. On the other hand, many people have a different view of private colleges and universities, including the students who attend them. They seem to believe that like other private enterprises, these schools make a profit. Such students think that these schools take in more per student than they spend. When students learn about these substantial subsidies, they judge the schools' prices as more reasonable. Clearly there is a story to tell that many private colleges and universities are not getting across.

#### Where students think the money goes

It is unsettling that so many subjects begin with such little information about college financing. When students indicate that a private college spends much less per student than it charges, do they really think that the school is making a profit on each student, and saving the money, or using it for noneducational purposes? Obviously if students think that schools take in more from students than they spend on each student, they have little idea of the way the economics of higher education works. But it might help us get a clearer idea of what thoughts people do have by asking them specifically what they think happens to the money that the schools take in from each student, if that amount exceeds what they believe it spends on them.

We studied this question with students at a New England private liberal arts college and a New England state university. Subjects were asked to estimate how much both their own school and the other school charged each student, and how much they thought each school spent per student to provide the total undergraduate experience. If they thought the amount spent was more than the charges, they were asked where the extra funding came from. If they thought the amount spent was less than the charges, they were asked where the unspent money collected from each student went. What was it used for?

Forty-five percent of the subjects at the private college believed that the college charged more than it spent, and 81% of the subjects at the public university felt the same about their school. Interestingly, this group of public university students was much less aware of the state subsidy than the students in our earlier studies, but we really do not know why. There are quite likely year-to-year variations in the kind of information students receive about the finances of their institutions. In any case, many students believed that their schools charged them more than it spent on them. Where did they think the extra money went? Among private school students, the most noted uses for the excess funds were building and grounds maintenance, new construction, faculty salaries and "overpaid executives," financial aid, recruiting and advertising, emergencies, and helping the local community. These responses indicate that

subjects are thinking about the costs of producing the undergraduate experience in a limited way. They realize that more money is actually spent than what they report goes toward producing the undergraduate experience. They simply think of some of these expenditures and costs as not related to their experience. However, not all the subjects who report higher price than cost simply think that additional funds are being spent elsewhere. Twenty-five percent of them believe that more money is being taken in than is being spent in total, and that the unspent funds are saved and invested, to add to the endowment. That is, significant numbers of private college students believe that the college builds its endowment by overcharging students, rather than using the endowment to subsidize their experience.

At the public university students who think they are charged more than is spent on their experience typically mention athletics as the place where extra funds are diverted. They also mention in significant numbers administration, salaries, new programs, and campus beautification. Many of these students are quite bitter and sarcastic in their discussion of college finances. Like the majority of the private college students, they do not think that the university actually spends less per student than it charges. Rather they believe that the funds are directed toward areas that have little to do with "the total undergraduate educational experience."

Judging what's reasonable, vs. what's too much

In view of many students limited understanding of the way college education is funded, we decided to try to get a clearer idea of their basis for assessing student charges. We asked them to judge the amount they were being charged along the dimension of "fair and reasonable" or "too much." In general, their responses were a bit closer to "too much" than to "fair and reasonable" but individual responses varied considerably. We also asked them to list the factors they considered in deciding how reasonable those charges were. At the private school the most frequently mentioned considerations were family income, what other schools charged, the quality of their current experience, both curricular and extracurricular, and their future earning potential. Students felt that charges were too high in relation to family income, but not in relation to the quality of their experience, the cost of other schools, and the very high potential for future earnings that would come with their degree. Students rarely mentioned the rate of increase in the price for college in relation to other prices. In fact, some reported that college prices should be judged as a unique kind of expense. Most students felt that charges were completely fair in relation to these considerations, and they had no problem with them. Some felt frustrated by the high price, but still felt it was fair. A smaller portion were very angry and frustrated by the price, and

felt it was too high.

At the public university, students judged reasonableness in terms of family income and the quality of their educational experience. Since they felt their families, most of them described as middle class, were hard pressed to pay tuition bills, and since they were somewhat less than completely satisfied with their educational experience, their feelings about the justifiability of the high price were more skeptical and negative. Also, they were much less likely to think in terms of future earning potential. Finally, they mentioned frequently that their university's charges were much higher than those of other state universities around the country.

Considering both groups of students, it seems that ability to pay, the quality of experience, what other similar schools are charging, and, for the private school subjects, future earning potential, are the key considerations. With these factors in mind most students feel that while the price may be too high, it is worth paying. That is, they seem to feel that the price is both fair and reasonable on the one hand and too much on the other. How they balance those two perceptions determines their overall feeling about the fairness of the charges they are asked to pay, and ultimately, it seems, their overall evaluation of the institution that asks them to pay those charges.

Would students be willing to pay less and get less?

Our results show that students clearly think about the reasonableness of what they pay in terms of what they get. But that is not the only consideration. Even if they feel that they get a great deal, and what they get is fairly priced, if they also feel that they or their families simply cannot afford their education, then they believe that the price is too much. Do these findings mean that students would feel better about the price if it were lower, but they correspondingly got less for it? Perhaps they feel that their colleges are charging for--and delivering--a Cadillac quality education, but that they would prefer to pay for, and get, a Buick or even a Chevrolet level education. We thought it was worth asking them.

Our first study to explore this question asked subjects to rate the reasonableness of the price of their college before and after they received subsidy information. We also asked them after their initial reasonableness rating to indicate what they thought student charges at their school should be. We then asked them to consider the consequences of either increasing the charges and adding faculty and other services, or decreasing the charges and making cuts. Specifically, based on work done by a "priorities and resources" committee on one of the campuses, subjects were told that a student-faculty-administration committee had considered the consequences of raising or lowering student charges by \$1,000 at the private university or by \$300 at

the public university. We explained that if support from the school were not changed, then the school's budget would be augmented or cut by 2% and that there would be corresponding additions or subtractions to faculty staffing levels, financial aid, support in the center for computing, the library, and audio-visual services, and maintenance funds. The subjects considered first the adds and then the cuts, or vice-versa, and indicated how willing they were to increase the price in exchange for the increase in services, or decrease the price in exchange for cuts in services. Then subjects were asked again to rate the reasonableness of the student charges and to indicate a second time what they thought the price for a year in college should be.

The subjects were quite disinclined to cut tuition if doing so would mean a loss of faculty, financial aid, computer support, etc. Interestingly, they were significantly more willing to increase the price if doing so meant adding faculty and services. That is, they indicated a moderate willingness to increase the price and add, but a distinct unwillingness to lower the price and cut. It seems clear that while students think that the price they are being charged is somewhere between "fair and reasonable" and "too much," they express great reluctance to set a lower price if they get less for it.

Of considerable interest was the students' answer to the final question, what their school should be charging. Recall that this question had been asked at the beginning of the survey

as well, just after students first rated the reasonableness of the school's price. Students at the public school raised their recommended price at the end of the survey from about \$7,300 to \$9,700, just a few hundred less than the actual price of \$10,000. Similarly, students at the private college raised their recommended price from \$21,900 to \$25,000. They were still not recommending the actual price of about \$28,000, but they were much closer to it.

The increases in recommended price are intriguing. They come on the heels of both learning about the school's subsidy and considering their willingness to accept cuts for a reduction in tuition and additions with an increase in tuition. Which of these exercises leads people to raise their suggested price? Is it learning about the subsidy, or is it considering possible adds and cuts? Is it possible that both affect perceptions separately, or is the combination important? A further study was undertaken to answer this question.

#### Information about subsidies, adds and cuts: the impact on recommended prices

The next studies of perceived reasonableness and recommended prices were also conducted at a private college and a state university, but in a different manner than those described above. The previous studies were conducted in laboratories where all the information was provided orally, sometimes with supporting

overheads. Subjects wrote all the information they were given orally on answer sheets. This procedure maximized the extent to which subjects paid attention to the information we provided and the questions we asked about that information. The studies took fifteen to twenty minutes each. The present research was conducted in student dormitories or during classes. Students were asked if they would take five minutes to complete a survey. It should be noted that since students were simply reading and answering a survey, there was some risk that the whole procedure would have less impact and capture less of their limited attentional resources. Still, it seemed worthwhile to find out if this potentially less involving approach would still generate enough reflection to affect student judgments.

There were two versions of the survey. The SUBSIDY version first asked subjects to rate the reasonableness of the 1997-98 sticker price for their school, \$29,350 for the private college or \$10,000 for the state university. Then subjects were asked to report what their school should be charging and to estimate the amount spent per student for the total undergraduate educational experience. Then, after the actual cost information was given, they were asked to again rate the reasonableness of the actual charges and to recommend the amount that should be charged. The ADD/CUT version of the survey explained to subjects the adds or cuts in faculty and services that would accompany a \$1,000 or \$300 increase or decrease in tuition (for the public or private

school respectively), assuming no change in college support. It also asked subjects for their rating of the reasonableness of the sticker price and their suggested charges figure both before and after they considered their willingness to make adds and cuts in exchange for increases and decreases in tuition.

At both schools, SUBSIDY subjects increased their reasonableness rating in ways that were similar to past studies. Even though they participated in a procedure which commanded less of their attention, they still rated the total charges figure as significantly more fair and reasonable after learning the extent of college support for their undergraduate experience. Also, at the private college students raised their recommended price from \$24,900 to \$26,400, an increase of about \$1,500. At the state university, students raised their recommended price more than \$900, from about \$8,400 to \$9,300.

The ADD/CUT subjects, who considered possible adds and cuts and the corresponding \$1,000 or \$300 increase or decrease in charges, increased their reasonableness rating of the total charges figure to very much the degree as the SUBSIDY version subjects. These students also raised their recommended price. At the private college there was an impressive increase of \$2,500, from \$24,600 to \$27,100. At the state university, the increase was \$450, from \$7,800 to \$8,250. In short, the exercise of asking private college students to consider the consequences of raising or lowering tuition without changing college support

for the budget has an effect by itself very much like the effect of asking them to judge student charges in light of subsidy information.

Thinking about the economics of higher education and judging student charges

Taken together the results of these studies suggest that while students react to the price of college with some degree of ambivalence, and tend to see it as slightly too high, at least two procedures that make them think a little more seriously about college finances change their perceptions, several thousand dollars worth. One important implication is that students know very little about the economics of higher education. Most of them think that schools charge more than they spend on the undergraduate experience. A sizeable proportion think that schools make money from student charges that they use for investment, the construction of new buildings, or support for the community. Because students' opinions about the reasonableness of charges, or the ideal tuition, are based on such misinformation, it turns out that they are highly unstable and quite variable. One consequence of this instability is that anything that causes subjects to think about the realities of college finances can lead them to make more considered judgments about what charges are appropriate, and perhaps make them realize that they go to school in a complex environment that deserves

more careful thought than heated emotion. In our research we find that thinking about either the degree of college subsidy or the budgetary and programmatic consequences of raising or lowering tuition makes students recommend a higher sticker price.

Our studies have identified one other particularly interesting indication of the extent to which student judgments about the reasonableness of charges can be affected by just a little bit of consideration of college finances. In two of our studies, after we asked subjects to estimate the amount that the institution spent to produce their experience, we asked them to indicate how reasonable they would rate the price charged IF their cost estimate were correct. That is, they were asked to re-rate the price after thinking about and estimating cost but before learning what the real cost was. At the private college subjects judged the charges as significantly more fair and reasonable after simply estimating costs. This was more true for students who estimated that the college spent more than it charged than for students who thought it charged more than it spent, but it was true to some degree for both groups. Thus merely reflecting on the fact that schools have costs can increase reasonableness ratings.

One obvious but notable aspect of all the findings discussed here is that all of the procedures we use to ask students to think about college finances lead them in the same direction, to judge student charges as more reasonable. Perhaps there are

other thoughts that could lead them in the other direction, to rate charges as less fair and reasonable. Students are certainly capable of becoming more outraged than they are now. But it may be that a range of things that they learn about the realities of the economics of higher education will lead them to judge student charges as more fair and reasonable. Further research awaits this issue.

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