Empirical Studies in Labor and Education Economics

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5
Summary and conclusions

This thesis consists of three empirical studies investigating policy questions in the field of labor economics and economics of education. This chapter summarizes the main findings and conclusions from the previous chapters and discusses their policy implications.

The first chapter uses the admission lotteries for medical school to estimate the returns to medical school. In the public debate about doctors' remuneration, three reasons are often mentioned for higher earnings of doctors. First, doctors are more motivated and more able than average university students. Second, doctors have a higher human capital investment because they spend more time in school and third, doctors work more hours. We find that completing medical school has a large positive effect on labor market outcomes. Doctors have a much higher income than people that lost the admission lottery to medical school. Because of the lottery, these people should be similarly motivated and able as doctors. Only a small part of this earnings difference can be explained by longer working hours or more investment in human capital. The larger share of the earnings difference probably reflects monopoly rents due to restricted supply of physicians in the Netherlands.

Releasing the quota might reduce the returns to medical school, but is costly in a situation in which the government heavily subsidizes study costs, as is currently the case in the Netherlands. In addition, public expenditures on health care costs might also increase, due to supplier-induced demand. However, one might question whether the coexistence of high private returns and high public investment is desirable. Policy makers can either consider setting a cap on the earnings levels of medical professionals or shift part of the study costs to students by raising tuition fees. Our results suggest that there is sufficient scope for medical school students in the Netherlands to pay higher tuition fees. This might also allow the government to increase the number of available places without increasing public expenditures.

Chapter 3 reports on a field experiment testing for sunk-cost effects in an edu-

cation setting. Students signing up for extra-curricular tutorial sessions randomly received a discount on the tuition fee. The sunk-cost effect predicts that students who pay more will attend more tutorial sessions, with possibly beneficial effects on their performance. For our full sample, we find no support for this hypothesis, neither on attendance nor on performance. The results are consistent with a sunk-cost effect for the subsample of students who, based on hypothetical survey questions, are identified as sunk-cost prone. We do not find differential effects by students' income or parental contributions. The field experiment in this chapter is comparable to earlier field experiments that did not find evidence of sunk-cost effects. However, in our experiment we tried to give the sunk-cost hypothesis a better chance by, among others, offering higher discounts. Despite these efforts, we find no evidence of such effects for our full sample.

Chapter 4 investigates the effect of mandatory search periods for applicants of welfare benefits. A search period can affect labor market outcomes in several ways. First, the job search requirement can increase the likelihood to find a job. Second, a search period makes the application process for welfare benefits more complex and increases the transaction costs of applying. Both mechanisms can serve as a self-selection or screening device, but possibly affect a different part of the population. An increase in the job finding rate will reduce take up of applicants with good outside opportunities while increased complexity could scare away applicants that did not find a job but are not able to deal with the complexity of the application process. The question is whether the search period screens out the right people.

We find that a search period reduces the likelihood to collect welfare benefits, and the reduced income from welfare benefits is fully compensated (112%) by higher earnings. This suggests that a search period does screen out the right applicants. This is further confirmed by subgroup analysis: the effect of a search period increases with education and there is no evidence of negative side effects for the most vulnerable applicants. This chapter shows that through stricter job search requirements and an increase in the complexity of the application process the take-up of welfare benefits can be significantly reduced. Since the monetary costs of applying a search period are minimal, it is a cost-effective policy instrument.