Who values access to subsidized college?

Urvi Neelakantan
Senior Research Director at CAFRAL

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Abstract

Using a rich model of human capital investment, we estimate that 40% of US high-school graduates place no value on access to college, deriving no benefit from subsidies that directly reduce tuition. Subsidies instead flow to the best-prepared students, most of whom would enroll without them. Even modestly targeted alternatives may therefore improve welfare. We provide one: redirecting subsidies away from those who would nonetheless enroll—towards a stock index retirement fund for those who do not even when college is subsidized—increases ex-ante welfare by 1% of mean consumption. This budget-neutral alternative benefits the large group that is poorly poised for collegiate success, giving them comparable mean returns while preserving aggregate college enrollment.

Speaker Profile

Urvi Neelakantan is a Senior Research Director at CAFRAL. Prior to joining CAFRAL in 2018, she has worked as a Senior Policy Economist at the Federal Reserve Bank of Richmond and as an Assistant professor of Consumer Finance at the University of Illinois at Urbana-Champaign.

Urvi's research interests are in the areas of consumer finance, labor and demographic economics, and macroeconomics. Her current research studies the relationship between heterogeneity; human capital and financial investments; and economic outcomes and well-being. In previous work, she has analyzed the role of gender and marital status on household financial outcomes. She has published several articles in academic journals including the *Journal of Population Economics* and *Economic Inquiry*.

Urvi has a PhD in Economics from the University of Minnesota.