

Belief Formation of the Returns to Schooling and How to De-Bias Incorrect Beliefs



In brief

- Investment in education is a key priority for developing countries as it increases a country's stock of human capital.
- Many policy measures that aim to induce the take-up of schooling can be expensive, such as using conditional cash transfers.
- Recent studies have shown that an individual's belief regarding the return to schooling can be powerful predictor of schooling decisions and thus, providing information regarding the return to schooling may be a very cheap and effective policy measure to increase the take up of schooling.
- This study attempts to understand belief formation regarding returns to schooling using a survey of 402 households in the Ajmer district of Rajasthan, India
- Key findings:
 - Beliefs about average wages are quite accurate across schooling levels.
 - Households may under-estimate the probability of employment in general, and may do so to a greater extent if they have received higher levels of schooling.
 - Households perceive more educated people to be happier and may over-estimate the association between schooling levels and happiness. There is also a positive relationship between self-reported happiness and schooling levels, but this relationship is less strong.
- Currently, the authors do not have any specific policy recommendations and intend to test a number of hypotheses suggested by their survey in the near future.

Policy Motivation

“This project seeks to understand the formation of beliefs of the returns to schooling and will inform policies to correct inaccurate beliefs through a series of surveys and field experiments.”

Investment in human capital forms an integral part of growth policy in developing countries. Many effective policy measures to encourage schooling, with conditional cash transfers being a leading example, can be quite expensive. Recent studies have shown that beliefs of the returns to schooling can be a powerful predictor of schooling decisions, and further that providing information on the returns to schooling can be a very cheap yet effective policy measure for encouraging schooling.

This project seeks to understand the formation of beliefs of the returns to schooling and will inform policies to correct inaccurate beliefs through a series of surveys and field experiments.

Policy Impact

Our study will inform interventions which provide information on the wage and other benefits of schooling to households.

Audience

The results of our study will be relevant to policy makers interested in the relationship between household-level information and schooling outcomes.

Policy Implications

At this point, our study has several main findings. We stress that at this point the findings are preliminary and based only on non-experimental survey evidence. We intend to continue our work to strengthen our conclusions.

In our sample, beliefs about average wages are quite accurate across schooling levels

We compare the beliefs of average wages at different levels of schooling with both average wages in our sample of households and with average wages across the state of Rajasthan. We find that on average, beliefs of wages are very similar to actual wages at all levels of schooling.

“We stress that at this point the findings are preliminary and based only on non-experimental survey evidence”

Households may under-estimate probability of employment in general, and may do so to a greater extent at higher levels of schooling

We find that respondents report lower expectations of employment probability than actual employment probability in our sample. These difference increases with the level of schooling.

Households perceive more educated people as happier and may over-estimate the association between schooling levels and happiness

We find that households perceive a positive relationship between schooling and happiness. We also see a positive relationship between self-reported happiness and schooling level, although this relationship is less strong.

“We find that households perceive a positive relationship between schooling and happiness”

Implementation

At this time, we do not have specific policy recommendations for our research. We intend to test a number of hypotheses suggested by our survey evidence in the near future. This work will be able to provide specific recommendations for policies to correct biased beliefs in the monetary and non-monetary benefits to schooling.

Dissemination

As our findings are preliminary, we would prefer they not be disseminated at this point. As our work is on-going, however, we can provide the IGC with a list of individuals and institutions for dissemination at a later date.

Further Readings

Chapter 4 of Abhijit Banerjee and Ester Dufo, 2011. *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. New York: PublicAffairs.

About the authors

James Berry is an Assistant Professor in the Department of Economics at Cornell University. His research addresses questions in development and labor economics, primarily through the use of field experiments. He is currently conducting several randomized evaluations to shed light on education production within the household and on decisions to take up and use health products.

Lucas Coffman is an Assistant Professor at Ohio State University. He researches and teaches at the intersection of Economics and Psychology. He uses novel experimental methods to uncover the underlying reasons for why we act the way we do in certain economic contexts. One line of research is particularly interested in moral perceptions of economic transactions — what is it about the behaviors of firms, business partners, employees, agents, etc. that makes us punish or reward them (e.g., continue doing business with them). Another line of his research is particularly interested in how very poor families in developing countries make the decision whether to send their child to work or to school.

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