'Tuition myopia' may negatively impact students' financial future, study finds

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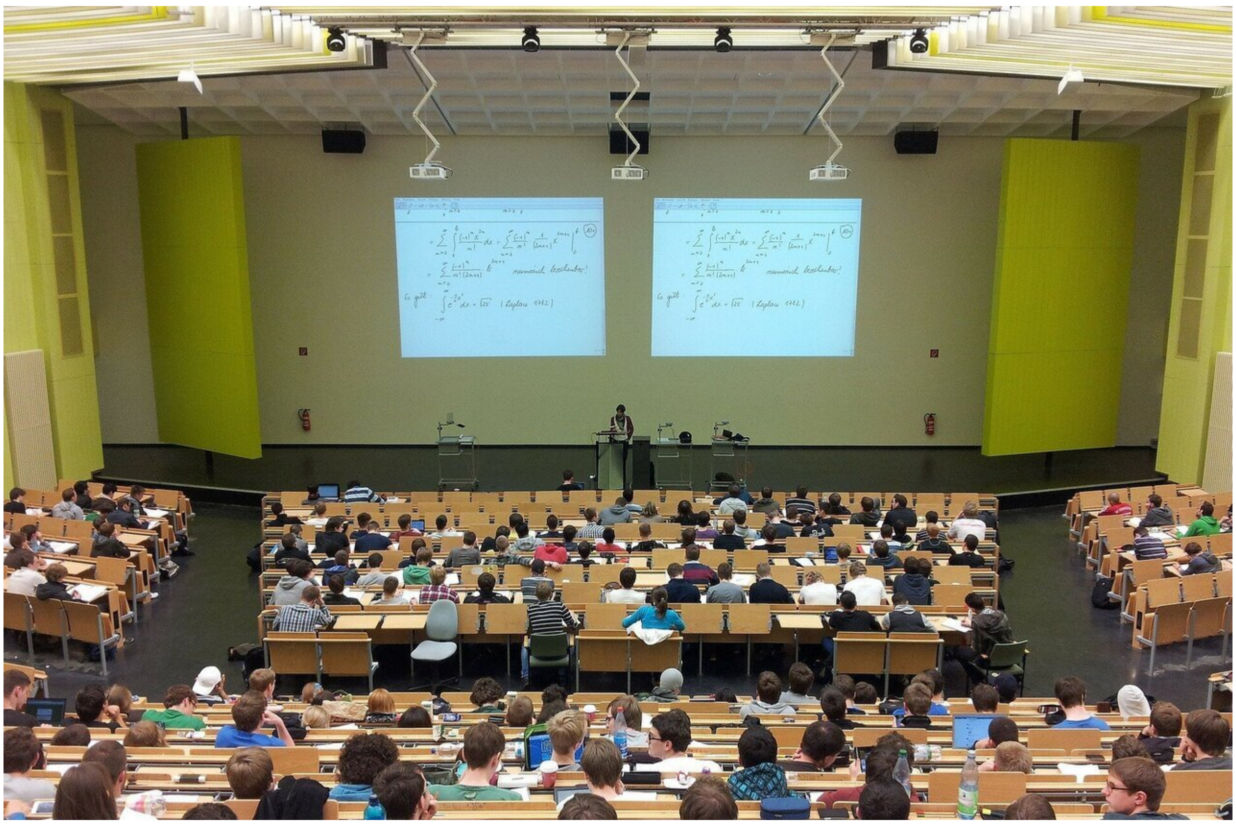

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Choosing more expensive colleges may seem like an unwise financial decision considering a large student debt burden after graduation. However, new research led by the Indiana University Kelley School of

Business demonstrates that avoiding such colleges can lead to bigger financial problems in the long run.

The work, titled "Early Cost Realization and College Choice," will appear in an upcoming special issue on the topic of university marketing of the *Journal of Marketing Research*.

The lead author of the research is Haewon Yoon, an assistant professor of marketing at the Kelley School of Business at IUPUI. He and colleagues at Boston University and the University of Florida found that college decisions focusing on financial information increased preferences for low-cost low-return colleges over high-cost high-return colleges, particularly among students who are focused on their college debt and are impatient to get it paid back.

The researchers drew upon data from the College Scorecard, a tool created in 2015 by the U.S. Department of Education. The College Scorecard offers more access to financial information that enables consumers to compare the expected cost and financial return of their college options. Traditionally, Yoon said students and their families have weighed options using traditional college rankings published by media outlets such as U.S. News & News Report or Princeton Review.

The research revealed that low-cost low-return colleges not only provide lower lifetime income compared to high-cost high-return colleges, but also lead to a higher chance of bankruptcy after graduation. The researchers found that 18 percent of students who chose low-cost low-return colleges defaulted on their own student debt three years after graduation. In contrast, only 2 percent of students who chose high-cost high-return colleges defaulted on their student debt during the same time period.

The researchers investigated why people are attracted to low-cost low-return colleges. Assuming students could get loans that covered all four years of a college education, which wouldn't require repayment until after graduation, it would seem likely that students would choose the school with the higher cost and higher return for a better financial future.

But Yoon and his colleagues found that many students didn't see it that way. Many still preferred low-cost low-return colleges, even when low-cost low-return and high-cost high-return colleges were defined on a relative scale; the same college could fall into either category depending on a consideration set. The students psychologically realized the financial costs of a college education long before repayments begin.

"This early cost realization, tuition myopia, frames college choice as an intertemporal trade-off: The more you pay upfront, the more you get in the future," Yoon said. "As a result, financially impatient students overestimate short-term tuition costs and underestimate long-term financial return, which leads to increased preference for low-cost low-return colleges."

"One in five students who chose low-cost low-return colleges will financially default on their loans because of the choice they made," Yoon said. "On the other hand, the default rate for loans at high-cost high-return colleges was just around 2 percent. So, students' desire to minimize the tuition payment in the short term will eventually hit them back pretty hard."

In addition to the messages that he hopes the research sends to prospective students and parents, Yoon said the research also has implications for colleges and universities and their marketing units, because it highlights the negative impact of marketing messaging based on cost instead of the expected return after graduation.

"It is equally important to understand the downside of underinvestment in human capital, which can lead to larger financial disadvantages in the future," researchers wrote. "A college education is a one-time opportunity for most students. Focusing on maximizing total lifetime income rather than investment efficiency may make more sense for many who wish to use this powerful ladder for economic benefit."

More information: Haewon Yoon et al, Early Cost Realization and College Choice, *Journal of Marketing Research* (2021). DOI: 10.1177/00222437211026337

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