

How much will you pay to live near people like you?

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Using restricted-access Census data, a new study examines a quarter-million households on a block-by-block basis to yield new results about the correlation between household attributes and school quality. The researchers find that, conditional on income, households prefer to self-segregate on the basis of both race and education.

“Economists have long been interested in estimating household preferences for school and neighborhood attributes, given their relevance to many central issues in applied economics,” write Patrick Bayer (Duke University and NBER), Fernando Ferreira (University of Pennsylvania), and Robert McMillan (University of Toronto and NBER) in the forthcoming issue of the *Journal of Political Economy*.

Specifically, while all households prefer to live in higher-income neighborhoods, college-educated households are willing to pay \$58 more per month than those without a college degree to live in a neighborhood that has 10 percent more college-educated households. In fact, the researchers find that households without a college degree would actually need compensating to live in a neighborhood with 10 percent more college-educated neighbors.

Similarly, blacks are willing to pay \$98 more per month to live in a neighborhood that has 10 percent more black households, compared to a negative willingness to pay on the part of white households to live in a similar neighborhood. Perhaps unsurprisingly, increases in household income and education also lead to a greater willingness to pay for better

schools.

“Our estimates suggest that the improvement in a school’s quality would disproportionately attract more highly educated households to the neighborhood, in turn making the neighborhood even more attractive to higher-income, highly educated households, and raising prices further,” the authors explain.

To correlate the quality of schools to household demographics and home prices, the researchers focus their attention on homes within 0.2 miles of a school zone boundary, in which children living in identical houses across the street from one another may attend different schools. From the middle of each block, the researchers located the closest “twin” Census block on the other side of the boundary.

They then assessed standardized test scores for both sides of the boundary. For the Census sample studied – which accounts for about 15 percent of the general population filling out the long form – test scores on one side of the boundary were 25 percent higher than on the “low” side, which is standard deviation. Accounting for average number of rooms and year built, the study finds that houses on the side with better standardized test scores cost an average of \$18,719 more.

However, the researchers found only minimal evidence of the “seam” in monthly rent prices, suggesting that average test scores and neighborhood characteristics are reflected more fully in property values than rents.

Source: University of Chicago

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