Wilf Csaplar Jr. Economics 260 Homework #6 **Due Tuesday 3/5**

All parts of the assignment will be turned in at the end of the lab. Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Suppose that you are a Junior and you are thinking about whether you should come back for another year. If you get a job now, you could earn $40,000 per year for the rest of your working life. If you stay another year and graduate, you would earn $50,000 per year for the rest of your working life. You are currently 21 and plan to work until age 67. The tuition etc, cost you $35,000. Set up the equation which would tell you the rate of return you would earn by staying in college. Briefly state how you determined what value goes where and how you would use the equation to solve for the rate of return. Do NOT actually calculate the rate of return.

2) (15 points) Despite what Table #8-3 shows, the social rate of return can be higher than the private rate of return. Explain what that table is ignoring and why it matters. What determines whether the private return is greater than or less than the social rate of return? Explain your logic.

3) (15 points each) As Table 8-3 shows, the private rate of return for primary education is 25.8%. For each of the reasons given below, explain why that means few people get the education. What can be done about it? Explain how your proposal would increase the number of people who get a primary education. If funding is required, explain where you would get the funding from. Answer each part in separate paragraphs.
A) Opportunity costs of attending school are high.
B) Schools are too far away.

4) (15 points) One of the problems with trying to estimate the rate of return for education, is the *identification problem*. What does that mean? Why is that a problem?

5) (15 points) Explain the difference between schooling and education. Why is that difference important?

6) (10 points) How can gross enrollment rates be over 100%?