

National Association of Student Financial Aid Administrators

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FEDERAL FINANCIAL AID POLICY AND COLLEGE BEHAVIOR

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Quick Outline

1. A Simple Model of **Enrollment Management**
2. Consequences of **Expansions of Federal Financial Aid**
3. **Conclusions and Limitations**

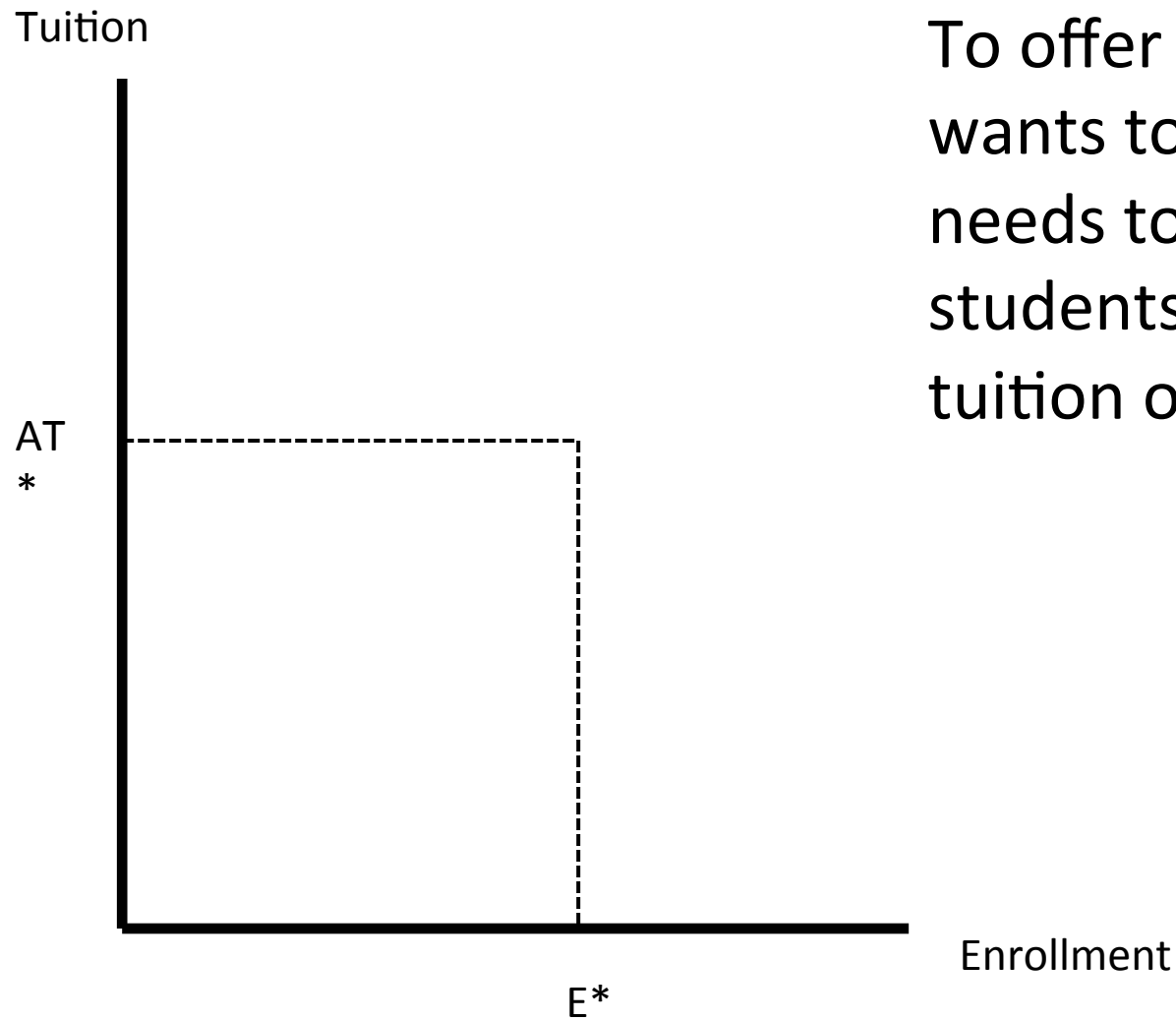
1. Enrollment Management

Colleges want students, revenue, and a high quality student body.

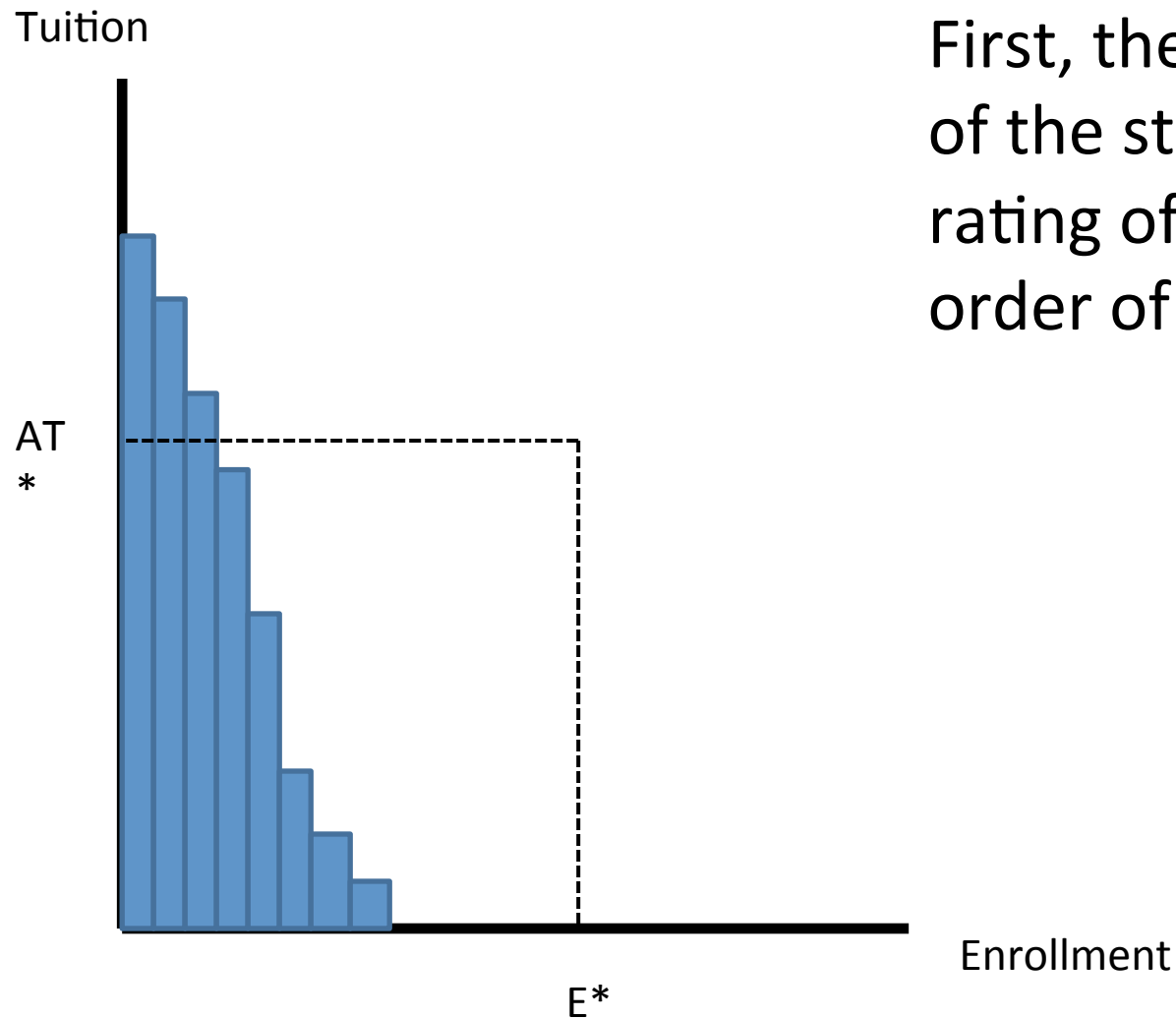
Colleges use tuition discounting to meet these goals.

Colleges rate applicants on some kind of quality scale, e.g. 10 – absolute best, 9 – next best, etc.

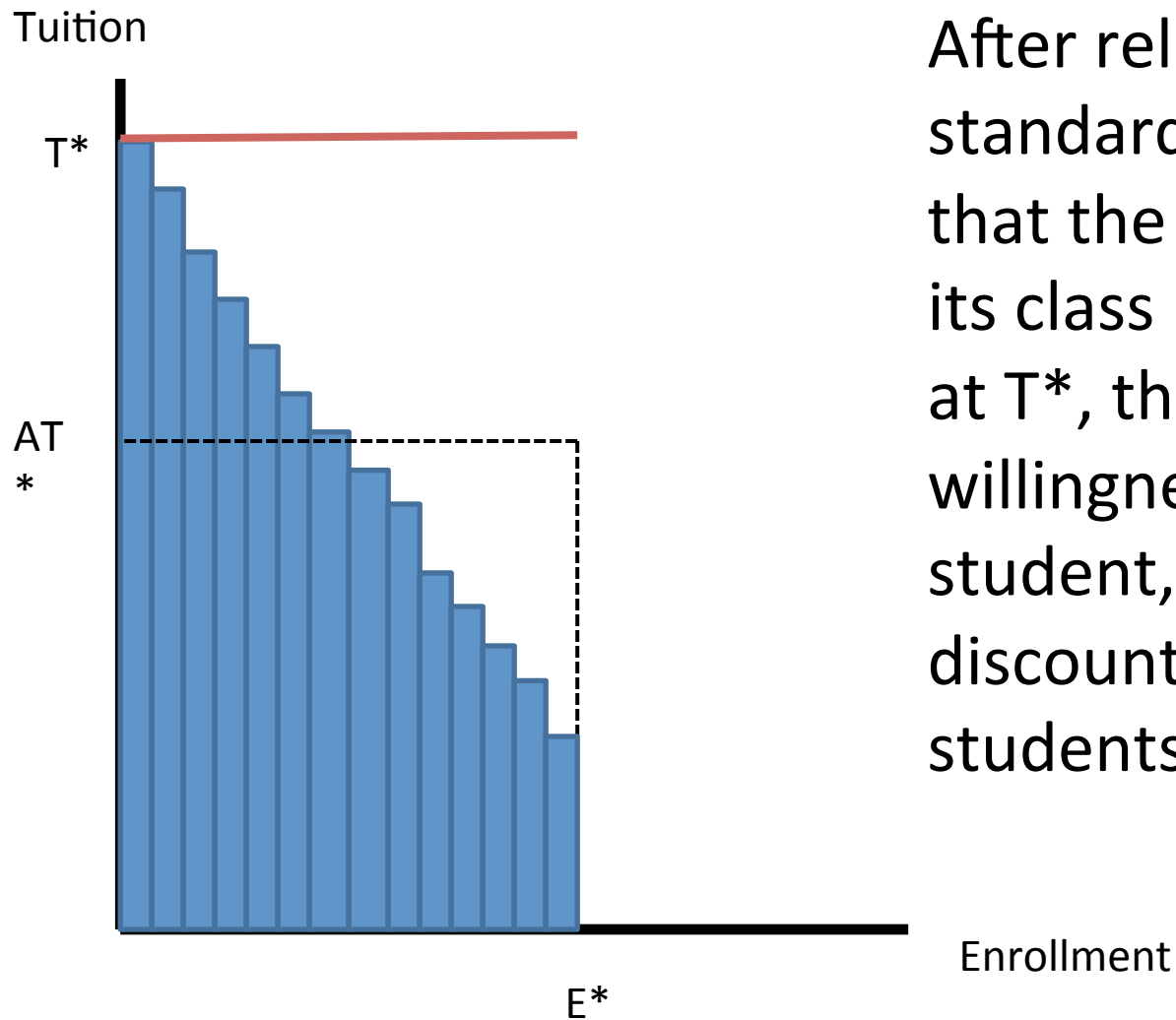
Colleges estimate the applicants willingness to pay to attend the college.



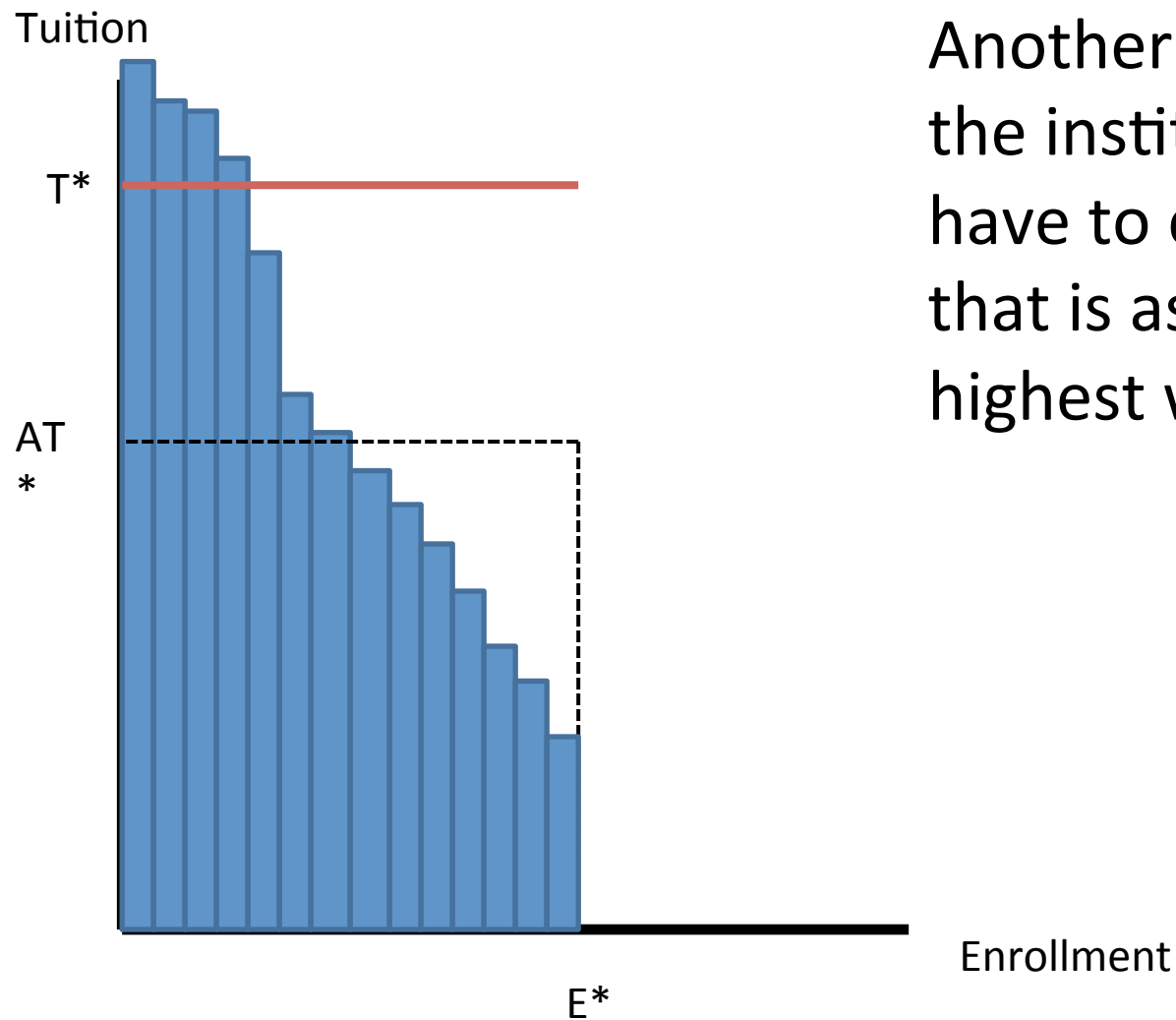
To offer the program it wants to, the college needs to charge E^* students an average tuition of AT^* .



First, the college arrays all of the students with a rating of 10 in declining order of willingness to pay.



After relaxing its quality standard one possibility is that the institution can fill its class by setting tuition at T^* , the highest willingness to pay of any student, and offer tuition discounts to all other students.



Another possibility is that the institution will not have to charge a tuition that is as high as the highest willingness to pay.

What Drives List-Price Tuition?

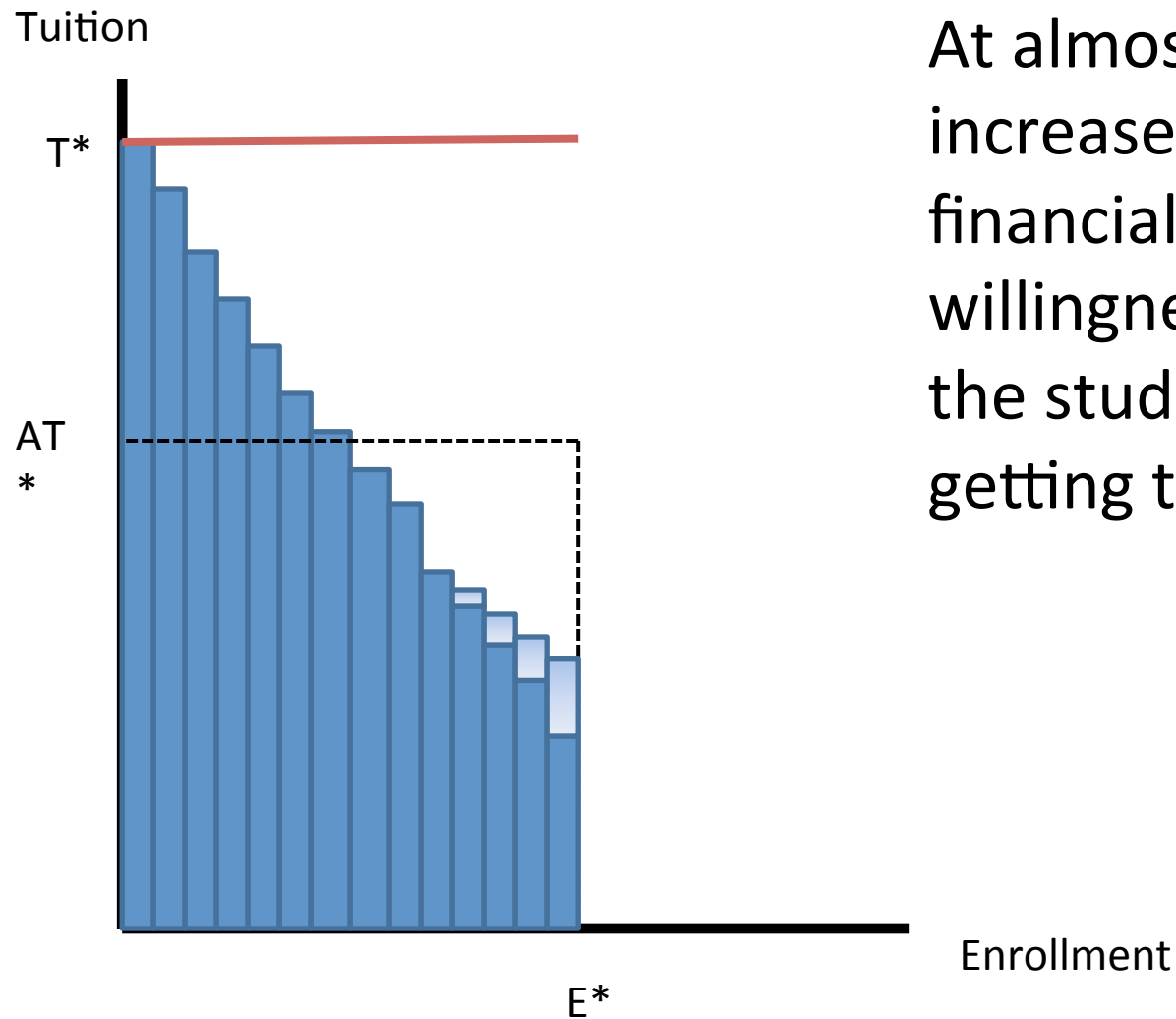
AT* - the required average tuition. This will increase if the costs of providing the college's program increase or if the subsidy the college receives (from donations, endowments, or state appropriations) decreases.

Willingness to pay of families with the students the institution would most like to attract.

2. What is the effect of an expansion of federal financial aid?

Increases in Pell Grants and subsidized student loans will increase the willingness to pay of families with the lowest ability to pay.

These families tend to also have the lowest willingness to pay.



At almost every college increases in federal financial aid increase the willingness to pay bars of the students already getting tuition discounts.

This institution has no reason to increase list-price tuition

If the institution decides to decrease its tuition discounts to the students who received the increases in federal financial aid, it has many options.

It could decrease list price tuition and still receive the same revenue by capturing the increased willingness to pay of those receiving federal funds.

It could keep list price tuition the same and increase the quality of its programming.

3. Conclusions

An increase in the generosity of federal financial aid will not create incentives for institutions to increase list-price tuition.

An increase in the generosity of federal financial aid may not decrease the net tuition of students by the full amount of the increase, so it may not go where it is intended, but this is not because of increases in list-price tuition.

3. and Limitations

1. All of the students attending some colleges will qualify for federal financial aid, so students with the highest willingness to pay can be affected.
2. Other kinds of financial aid, e.g. state tuition assistance grants, are not need-based, so increases could affect all students.
3. Some institutions, particularly for-profit ones, do not use the enrollment management model, so our analysis does not apply.