I. Abstract

We estimated real total cost functions for private baccalaureate colleges for the academic years of 2006-2007, 2009-2010, 2013-2014, and 2014-2015. Using data for 242 colleges, collected from IPEDS, our results reveal that the growth rate of colleges’ costs decreased during the recession years of 2009-2010 relative to their pre- and post-recession levels. These results indicate that the Great Recession had a depressing effect on colleges’ cost growth in the short-term, but not the long-term.
II. Empirical Model and Variables

\[ \text{COST}_i = f(\text{FTEUG}_i, \text{GRAD}_i, \text{ADMIT}_i, \text{CITY}_i, \text{ME}_i, \text{GL}_i, \text{PL}_i, \text{SE}_i, \text{FW}_i, \text{RMSW}_i) \]

- \( \text{COST}_i \) is the sum of academic support, public service, operations & maintenance, research, student services, and instruction.
- \( \text{FTEUG}_i \) is the Full Time Equivalent Undergraduate Enrollment
- \( \text{GRAD}_i \) equals 1 if college has graduate program; 0 if not
- \( \text{ADMIT}_i \) is the percentage of applicants admitted
- \( \text{GL}_i \) equals 1 if college is located in the Great Lakes Region; 0 if not
- \( \text{PL}_i \) equals 1 if college is located in the Plains Region; 0 if not
- \( \text{SE}_i \) equals 1 if college is located in the South East; 0 if not
- \( \text{FW}_i \) equals 1 if college is located in the Far West; 0 if not
- \( \text{RMSW}_i \) equals 1 if college is located in the Rocky Mountain or South West Region; 0 if not
III. Theory and Hypothesis

• FTEUG$_i$ is hypothesized to have a positive relationship with COST$_i$ because greater student enrollment causes an increase in the quantity of services a college must provide.

• GRAD$_i$ is hypothesized to have a positive relationship with COST$_i$ because colleges offering graduate programs incur additional costs than those without.

• ADMIT$_i$ is hypothesized to have a negative relationship with COST$_i$ as colleges with a lower ADMIT typically provide more services and have higher costs.

• CITY$_i$ is hypothesized to have a positive relationship with COST$_i$ because costs in urban areas tend to be higher than rural areas.

• ME$_i$, GL$_i$, PL$_i$, SE$_i$, FW$_i$, RMSW$_i$ are hypothesized to have a negative relationship with COST because we expect them to be cheaper regions than the New England Region.
IV. Data

• Cross sectional data for:
  • 2006-2007 Pre-recession year Sample Size: 207
  • 2009-2010 Great Recession year Sample Size: 208
  • 2013-2014 Post-recession year Sample Size: 212
  • 2014-2015 Post-recession year Sample Size: 211

• Data collected on IPEDS (The Integrated Postsecondary Education Data System)
V. Empirical Results

Selectivity and ADMIT are inversely related, as ADMIT increases, selectivity decreases.
VI. Conclusion

- We marshal evidence that the Great Recession impacted the growth of colleges’ costs temporarily, but not permanently. College cost growth decelerated during the recession, compared to the pre- and post-recession years.

<table>
<thead>
<tr>
<th>Academic Year</th>
<th>Cost Growth Rate by Selectivity</th>
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<tbody>
<tr>
<td></td>
<td>High</td>
</tr>
<tr>
<td>2006-2007</td>
<td>3.10%</td>
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<tr>
<td>2009-2010</td>
<td>0.54%</td>
</tr>
<tr>
<td>2013-2014</td>
<td>6.06%</td>
</tr>
</tbody>
</table>

Selectivity and ADMIT are inversely related, as ADMIT increases, selectivity decreases.