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Abstract

This dissertation is a collection of essays in public economics, focusing on how public policies shape the financial decisions of firms and households. The first two chapters explore sources of private funding for higher education, how these interact with public policy, and how this affects decisions of both schools and students. The third chapter turns attention to the financial products households use to receive Social Security payments.

Chapter 1 begins with the fact that college endowments, after years of growing in size and importance to college revenues, suffered large investment losses during the financial crisis of 2008. This left many endowment gift funds below their original donated values, or “underwater.” Colleges in some states were legally required to cut spending from underwater funds. Other states had recently enacted the Uniform Prudent Management of Institutional Funds Act, which allows prudent spending from underwater funds. I use the differential timing of enactment across states, coupled with the unexpected rise in underwater funds, to identify the effect of the new law on endowment spending. I study a panel of 576 private colleges over fiscal years 2005 to 2013. The Act loosened financial constraints, and affected colleges responded by spending 17 percent more from their endowments in the fiscal year following the financial crisis. Other colleges did not increase spending from unrestricted parts of their endowments to offset reduced spending from underwater funds.

Chapter 2 is joint work with Sara Goldrick-Rab. We evaluate a privately funded need-based grant program serving students beginning at public two-year colleges in Wisconsin. Each year around 600 already-enrolled, full-time students with financial need are randomly selected to be offered a renewable grant of $1,800 per year, while a control group receives no grant offer. The grant reduces the net price of college (tuition plus living expenses minus other grants) by 25 to 40 percent. Using multiple cohorts of students, we estimate small positive impacts of the grant offer on continued enrollment, grades, credits, degrees, and transfers, but we generally cannot rule out that the grant offer has no impact. We can rule out impacts larger than a 2.6 percentage-point increase in the probability of persisting to a third semester of college, per $1,000 in aid offered.

Chapter 3 is joint work with Alexander Strand and J. Michael Collins. This study is motivated by the fact that the US Treasury stopped delivering Social Security payments by paper check in March 2013, moving to electronic payments. The goal was to lower administrative expenses, but the change may have imposed transition costs on payees forced to adopt new financial products. This study characterizes households facing these costs by linking administrative data on Social Security payments to a nationally representative survey on use of bank accounts and financial services. We find that unbanked households disproportionately receive payments for disabilities, have low assets, and use costly alternative financial services. Still, we conclude that the costs imposed by the policy change are more limited than previous studies would suggest, because the unbanked payment recipient population is small and generally willing to take up electronic payments even before they are required to do so.