

Essays on Economics of School and Residential Choices

by

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THESIS

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Abstract

This thesis studies school and residential choices when private schooling is available and attending a public school is free of charge but requires a residence in the school attendance zone. Each of the three chapters focuses on different issues.

The first chapter develops a model of competition between neighbourhood (public) schools and private schools. A model is presented in which a school's quality is determined by the average ability of the student body. Private schools set their own tuition and admission policies to attract particular types of students. All schools are equally effective in providing any given school quality. The theoretical results show that in equilibrium private schools cream skim relatively richer and higher ability students and produce higher school qualities than public schools even though neighbourhood schools also generate segregation among public school students. A policy implication is that price subsidisation to private schooling would intensify the cream-skimming problem in this environment. This is likely to worsen the welfare of students who are left in the public sector as public schools lose relatively higher ability students to the private sector.

The second chapter argues, by developing a simple multiple jurisdiction model, that price subsidisation for private education can be a Pareto improving policy if (i) school quality is measured by levels of educational services, (ii) private education is more costly per unit, (iii) the level of educational services of public schools within a jurisdiction is determined by majority voting of the residents, and (iv) the housing capacities of jurisdictions cannot accommodate perfect segregation among heterogeneous households.

The third chapter studies school and residential choices when there are frictions in housing markets and agents only value school quality during the early stages of their lives. An overlapping-generation model is developed to explain the relocation of agents across frictional housing markets due to different valuation and quality of

local amenities such as public schools. There exist steady-state equilibria in which young agents who value school quality and live in a location with a low-quality public school have a potential to move to another location with a better public school. With frictions, some of such young agents who are willing to relocate get stuck in the low-quality school location and obtain relatively low life-time utility. The equilibria exist under sufficiently high differences in public school qualities across locations. For individuals, the benefits of moving into a good school location are not only derived from school quality but also from the resale value of the house once school services are no longer valued. Equilibria exist in which increasing the quality of the low-quality school improves the total welfare but affects agents across locations differently. In addition, when relatively good quality private schools are available, the young house buyers are better off while some old house owners are worse off due to a reduction in the returns from house sales.

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Dedication

To Mom and Dad

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