

IGC Draft Policy Brief

Title: **Belief Formation of the Returns to Schooling and How to De-Bias Incorrect Beliefs**

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I. Policy Motivation for Research:

Investment in human capital forms an integral part of growth policy in developing countries. Many effective policy measures to encourage schooling, with conditional cash transfers being a leading example, can be quite expensive. Recent studies have shown that beliefs of the returns to schooling can be a powerful predictor of schooling decisions, and further that providing information on the returns to schooling can be a very cheap yet effective policy measure for encouraging schooling.

This project seeks to understand the formation of beliefs of the returns to schooling and will inform policies to correct inaccurate beliefs through a series of surveys and field experiments.

II. Policy Impact:

Our study will inform interventions which provide information on the wage and other benefits of schooling to households.

III. Audience:

The results of our study will be relevant to policy makers interested in the relationship between household-level information and schooling outcomes.

Main sections:

IV. Policy Implications:

At this point, our study has several main findings. We stress that at this point the findings are preliminary and based only on non-experimental survey evidence. We intend to continue our work to strengthen our conclusions.

- In our sample, beliefs about average wages are quite accurate across schooling levels.

We compare the beliefs of average wages at different levels of schooling with both average wages in our sample of households and with average wages across the state of Rajasthan. We find that on average, beliefs of wages are very similar to actual wages at all levels of schooling.

- Households may under-estimate probability of employment in general, and may do so to a greater extent at higher levels of schooling.

We find that respondents report lower expectations of employment probability than actual employment probability in our sample. These difference increases with the level of schooling.

- Households perceive more educated people as happier and may over-estimate the association between schooling levels and happiness.

We find that households perceive a positive relationship between schooling and happiness. We also see a positive relationship between self-reported happiness and schooling level, although this relationship is less strong.

V. Implementation:

At this time, we do not have specific policy recommendations for our research. We intend to test a number of hypotheses suggested by our survey evidence in the near future. This work will be able to provide specific recommendations for policies to correct biased beliefs in the monetary and non-monetary benefits to schooling.

VI. Dissemination:

As our findings are preliminary, we would prefer they not be disseminated at this point. As our work is on-going, however, we can provide the IGC with a list of individuals and institutions for dissemination at a later date.

VII. Further Readings:

Chapter 4 of Abhijit Banerjee and Ester Duflo, 2011. *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. New York: PublicAffairs.