Self-Control and Provision of Education Subsidies

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Abstract

This paper provides a simple yet unified framework that not only provides a rationale for a government's education subsidies but also allows us to examine what kinds of subsidies would be the least costly. The paper builds a model based on hyperbolic discounting utilities in which a government's intervention in education is justified to ease individual's self-control problem leading to the underinvestment in education; it shows that when the degree of self-control problem is high (low), conditional cash transfer is more (less) cost-effective than price subsidies. Those model predictions are consistent with the empirical patterns observed in education subsidies around the world.

Keywords : Education Policy; Hyperbolic Discounting; Self-Control

JEL classification : E21; H20; H4; H52; I28

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