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Location Copenhagen Business School, Department of Economics, Porcelænshaven 16A, 2000 Copenhagen F, meeting room on the 2nd floor

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Student Aid, Academic Achievement, and Labor Market Behavior: Grants or Loans?

ABSTRACT

We provide a framework for quantifying the impacts of implicit incentives in study aid schemes. We specify and estimate a dynamic discrete choice model of simultaneous education, work, and student loan take-up decisions exploiting the 2001 Swedish Study Aid reform for identification. This enables ex-ante evaluation of various changes to financial aid schemes. We find that the grant-loan mix does not affect student behavior as long as there is more weight on loans. When there is substantially higher weight on grants, however, more students graduate but stay enrolled longer. Moving from an income contingent to an annuity based loan repayment scheme substantially decreases student debt accumulation and improves the effectiveness of academic capital accumulation.