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Economic Review

The Rise and Fall of College Tuition Inflation

by: Brent Bundick and Emily Pollard

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Wages in the education sector and state appropriations to higher ed help explain changes in college tuition over time.

The cost of college tuition increased rapidly from 1980 to 2004 at a rate of about 7 percent per year, significantly outpacing the overall inflation rate. Since 2005, college tuition inflation has slowed markedly and has averaged closer to 2 percent per year for the last few years. Understanding what drives tuition inflation is important for predicting future tuition as well as personal income mobility. However, untangling the various supply and demand factors influencing college tuition can be challenging.

Brent Bundick and Emily Pollard document changes in college tuition inflation over time and attempt to explain the long rise and subsequent fall in college tuition inflation. They find that supply factors such as wages in the education sector and state appropriations to higher education both play important roles in explaining changes in college tuition inflation. In contrast, they find little evidence that demand factors such as changes in the availability of student loans have a significant effect on college tuition.

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