Economic Review

The Rise and Fall of College Tuition Inflation

by: Brent Bundick and Emily Pollard

April 10, 2019

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.

Publication information: 1st Quarter 2019
DOI: 10.18651/ER/1q19BundickPollard

Authors

Brent Bundick

Vice President

Brent Bundick is a Vice President and Economist in the Economic Research Department of the Federal Reserve Bank of Kansas City. In that role, he conducts research on the macroeconomy and serves as an advisor to the Bank's leadership on monetary policy and macroeconomic issues. He rejoined the Bank in 2014 after completing his Ph.D. in Economics from Boston College. Prior to graduate school, Brent worked in the Department as a Research Associate and Assistant Economist. He also holds a M.S. in Mathematics and Statistics from the University of Missouri – Kansas City and a B.A. in Economics and Mathematics from the College of William and Mary. Brent's research has examined the effects of uncertainty on the macroeconomy and how changes in central bank communication affect inflation, labor markets, and the broader economy.

Emily Pollard

Associate Economist

Emily Pollard is an Associate Economist in the Economic Research Department of the Federal Reserve Bank of Kansas City. She joined the department in 2016 as a Research Associate. Prior to joining the department, Emily received B.A. degrees in Economics and Mathematics from Carleton College. Emily's research interests are labor economics and macroeconomics.