

Why do non-EU students study in the UK with school fees from £8,000 – £20,000 when they could have got the same degree in their home country for free?

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Abstract:

I am writing about an economic pattern of events or behaviour that I personally have observed. In my case, I aim to answer the question; “Why do non-EU students study in the UK with school fees from £8000 - £20 000 when they could have got the same degree in their home country for free?” I will discuss this question in detail and answer it in the best possible way, using economic theory discussed in this module to help my analysis. I will look at both sides to achieve a fair argument, which will give a clear conclusion and an answer to my question. At the end of my essay I will briefly talk about some other factors that I have not been able to consider in detail during my discussion.

People spend their money differently, no question about it. But what determines how and on what people spend their money? People obviously are satisfied differently and have different preferences. In this essay I will discuss the following question; "Why do non-EU students study in the UK with school fees from £8000 - £20 000 when they could have got the same degree in their home country for free?" I will limit my discussion to just this question, and I will not discuss the value of studying in general. Furthermore, I will limit the discussion to a Norwegian student studying Business in the UK, as this is what I have personally observed. I will use economic theory in my discussion. I will concentrate on discussing preferences and utility by using utility functions and the cost-benefit principle. I will briefly mention opportunity cost, and the meaning of that and the differences between monopoly and a competitive market.

Utility functions are ways of describing choice behaviour. If good X is chosen when a good Y is also available, we can say that X must have a higher utility than Y. I will try to make a utility function to describe consumer behaviour, and thereby how a future student can decide which place to study. Let's say students have a choice: study in the UK or Norway. Both of these alternatives represent a bundle of different characteristics, such as: costs, convenience, study time, outcome, reputation and learning objective. We could say that X_1 would be the costs at the universities, X_2 the convenience, and so on. Let's say that X_1, X_2, \dots, X_n represent all the different values of n different characteristics of study in the UK. Y_1, Y_2, \dots, Y_n represent all the different values of n different characteristics of study in Norway. (Varian, 2010 pages: 67-69) We can then consider a model where the future student can decide whether he prefers one bundle of characteristics to the other, and decide which one he or she would

prefer / would give higher utility. This is a way of making a choice of where to study, and a cost-benefit trade off. I will try to explain how to do it.

What are the characteristics of studying in the UK or Norway? An education can take six years. There are other factors involved than just the degree. I will divide the advantages of studying in the UK into two groups. The first group of advantages are ones that you personally appreciate, thinking it's all right to pay some extra for, but don't really help your career or future salary: moving to a new country will force you to be independent, it is exciting and challenging, you will experience a new climate and learn about the British way of life. The second group consists of advantages that will help your career in the future, and therefore can be seen as an investment. By studying in the UK you are most likely to learn English fluently, which is a quality a future employer will surely appreciate. You will also get international contacts/friends that can expand your network in a way you wouldn't get studying back home in Norway. You would get a different and clearer view of cultures. These are qualities that a future employer would absolutely appreciate and make you more attractive, and are going to make many employers pay extra for you as an employee. You will have a better opportunity to get into an international labour market, which will give you more opportunities, and thereby the opportunity for a higher salary, better job satisfaction and more challenges. Later on, the UK's expertise in education will help you to do a better job and you will get promoted to better paid jobs faster.

The extra loans and the extra money you pay is an investment. Discounting future higher salaries is a way to decide how much you would invest in a better education. If your

expertise will get you a much better paid job, the return on the investment will be seen as reasonable.

To find out if the “investment” of studying in the UK would give a positive return, we can use the discounted cash flow method (DCF). The discounted cash flow will help us to estimate what a future cash flow would be in present values. If we could estimate our future salaries both with an education in the UK and in Norway, we could discount the extra salaries to present value, deduct the investment (extra cost) to find the net present value and find out if an education in the UK would give a positive return. I will not discuss the interest rate, which should be used in the DCF calculation, as this is outside the scope of the question (Investopedia). Ideally, we should also deduct my opportunity cost. An opportunity cost is what you sacrifice or choose to leave as a result of your choice (Varian, 2010, page: 23 and Investopedia). This is to be away from family and friends, having access to the parental home with lower living costs, a Norwegian network etc.

If we get a negative present value, we should also include the second group of advantages. They may not turn out in money, but you would have obtained valuable and positive experiences, on which you can't set a price tag. However, the cost-benefit principle says you should take an action if, and only if, the extra benefit from taking it is greater than the extra cost (Frank, 2008, page 59 and Wikipedia). The benefit is a combination of what you can calculate and what you cannot calculate. My own observation is that the cost-benefit of studying in the UK is clearly positive and supports paying the extra cost.

In my discussion, I have assumed that the quality of universities are the same and therefore in a perfect competitive market where they will compete with each other. In a perfect competitive market there are several firms selling an almost identical product, and each university is a small part of the market as a whole. The equilibrium price is the price where supply equals demand (Varian, 2010, page: 293). As reputation is really important to a university, some universities may be able to establish tuition fees above the market price, as in a monopolized market where there is only one firm selling a product. In this case the university sells a product with a better reputation, with which regular universities could not compete. "The university would recognize its influence over the market price and choose that level of price and output that maximized its overall profits" (Varian page 439). So the most prestigious universities can take a monopoly profit.

I have tried to answer my opening question by examining the advantages and disadvantages of studying in the UK and Norway. My discussion shows that it is all about individual preferences. People have different preferences that will determine their choice; it is clear that some people will see the education as an investment with a return. Other people might see it as a waste of money, and would rather study in Norway with zero school fees. People are different, so we cannot determine what is right or wrong generally. It is up to you as an individual to determine what is right or wrong for you.

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