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Standards, Inequality in Education and Efficiency

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ABSTRACT

We develop a model of educational standards that includes inequality in educational opportunities. Our model shows that policymakers setting an output maximizing standard need to consider structural factors such as inequality of income and opportunity, skill mismatch in the economy, profit and wage shares and labor market imperfections. High standards are not optimal under severe educational inequality; they lead to lower output when many cannot access quality education. Optimal standard rises along with increasing opportunities for poor students. Targeted subsidies enhance both distributional and efficiency-related objectives. Other effective policies to extend skilled labor and to improve poor workers' income are remedying information problems between employers and workers and distributing more of output gains toward labor.

KEYWORDS Educational Standards; Educational Subsidy; Optimal Standard

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