

# How long should we stay in education if ability is screened?

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## Abstract

We examine how ability screening affects demand for education and the shape of the optimal education system. Explicitly incorporating gradual screening by education into the model, we illustrate how individuals of different abilities decide to stay in education or drop out. Gradual screening induces low-ability individuals to receive over-education, reducing the net benefit obtained from education by society as a whole, as well as these individuals. A mixed education system, in which public education is provided before private education, is superior to a wholly private system in terms of both efficiency and equity because it reduces over-education of low-ability individuals.

**Keywords:** ability screening, drop-out, public education

*JEL classification:* I21, I22, I28

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