Optimal Public Education Policy in a Model with a Hierarchical Education System

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Abstract

We consider optimal public education policy in a model with a hierarchical education system. While all individuals receive the compulsory education, all of them cannot access to tertiary education due to the capacity of the tertiary education. Individuals who wish to go to the tertiary education are selected in performance in school and/or admission exam. While a severe competition requires students of large effort, it promotes learning outcome. The optimal education policy consists of the quality of each education per capita, capacity of tertiary education, and tax rate as the financial resource of the public educations. We show that the capacity of tertiary education significantly influence the competition among students and economic efficiency.

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