

The effects of education externality on schooling

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Abstract

This study theoretically investigates the effects of educational envy on schooling decisions. I develop a model where in workers enjoy utility from their levels of education and consumption. Moreover, worker's utility also depends on other worker's education levels, i.e., we assume the "keeping up with Joneses" effect in education. The main result of this study is that such envy causes workers to make decisions on education level that differ from the decision made when envy is not considered. This result can explain the United States-Japan differences in the relationship between wages and schooling decisions. Analysis from a social planner's perspective reveals that certain conditions on parameters can change the social preferences for the education level selected by individuals. Moreover, the model indicates that the economy may be overeducated in terms of the education for education's sake situation.

JEL Classification: I26; I21; I31; E24

Keywords: Education; Externality; Social preference; Multiple equilibria

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