

The Returns to Postgraduate Education in Japan *

Fumihiko Suga †

January 22, 2016

Abstract

This paper aims to estimate the effect of postgraduate education on wages in Japan. The majority of Japanese people with a graduate degree are those who studied science/engineering at public schools, and the admission to science/engineering at public schools in Japan is selective compared to other majors such as humanity and social science at private schools. Since the probability of earning a graduate degree is associated with the selectivity of the university/college in Japan, the upward bias due to selection on unobserved ability can be serious in the absence of detailed information on individuals' education and ability. Using a dataset with extensive information including individuals' college major and type (private or public), this paper estimates the effect of earning a Master's degree on wages in Japan. The postgraduate wage premium estimated by OLS is around 19.3 to 31.1% even if we control for college major and college type. In the IV regression, however, the estimated effect of postgraduate education is not statistically significant.

Keywords: Rate of return, Postgraduate education, Wage premium

JEL classification: I21, I23, J24, J31

*I am grateful to the members of the research group at the ESRI. All errors that remain are mine.

†Economic and Social Research Institute, Cabinet Office, Government of Japan. f.suga37@gmail.com