

# The Out of State Tuition Distortion<sup>\*</sup>

Brian Knight<sup>†</sup>    Nate Schiff<sup>‡</sup>

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## Abstract

Public universities in the United State typically charge much higher tuition to non-residents. Perhaps due, at least in part, to these differences in tuition, roughly 75 percent of students nationwide attend in-state institutions. While distinguishing between residents and non-residents is consistent with welfare maximization by state governments, it may lead to economic inefficiencies from a national perspective, with potential welfare gains associated with reducing the gap between in-state and out-of-state tuition. We first formalize this idea in a simple model. While a social planner maximizing national welfare does not distinguish between residents and non-residents, state governments set higher tuition for non-residents. The welfare gains from reducing this tuition gap can be characterized by a sufficient statistic relating out-of-state enrollment to the tuition gap. We then estimate this sufficient statistic via a border discontinuity design using data on the geographic distribution of student residences by institution.

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<sup>†</sup>Brown University

<sup>‡</sup>Shanghai University of Finance and Economics