

The innocent observer might be puzzled about why apparently wealthy private US universities and colleges charge such high fees. And it is true that some are very wealthy indeed: at the end of June 2014 Harvard's endowment was \$36.4 billion (£23 billion), Yale's was \$23.9 billion and, at the end of August, Stanford's was \$21.4 billion. But many institutions do not have billion-dollar endowments and rely instead on the "high tuition, high aid" business model for undergraduate programmes. So while annual tuition fees and other charges for undergraduate degrees run from an unusual low of about \$5,000 at Brigham Young University in Provo, Utah, through to more than \$50,000 for some programmes at institutions in the North East such as [Columbia University](#) and [Sarah Lawrence College](#), the average annual published price in 2014-15 for undergraduate degree study at private colleges is just over \$31,000.

In practice the high tuition, high aid model means that there is a high sticker price (the official cost) but not everyone pays it. Universities use projected gross tuition income plus any donations, subsidies and other revenues to discount the price for some, and occasionally many, applicants. This is done through merit-based scholarships, need-based scholarships, work-study arrangements and combinations of these funding mechanisms.

One of the drivers of discounting is the desire to build the best possible incoming cohort, to maximise the benefits of what economists call "consumer input technology": students teaching and learning from each other. This thinking is based on the idea that the more able and diverse the group of students, the better the educational experience.

Being selective and controlling who is admitted matters. Universities want the highest-quality students possible as they are better at educating others, at learning, at graduating on time and getting good jobs – thus making them more likely to donate to the institution later in life.

The most sought-after colleges with high excess demand do not need to drop their price as far, or at all, to successfully fill all the places. And by holding their price, their overall wealth rises as does their reputation.

But for the less affluent/less sought-after universities to be more selective, the first step is to increase the size and quality of the pool of applicants. And in seeking the best result, institutions often offer subsidies – either indirectly by selling at or below the published price or by offering direct financial aid.

For example, in the 2013-14 academic year only about 11 per cent of full-time, first-time, first-year students at US private institutions paid the sticker price. And the cost of these discounts has been edging up. Between 2000 and 2013, the proportion of gross tuition fee revenue used to give discounts to full-time, first-time, first-year students in private institutions has risen from 37.2 per cent to 46.4 per cent. Most of the increase happened after the 2007 recession, which increased the number of price-conscious households in middle-class America and made the choice of which university, and at what price, a fraught, whole-family decision.

For middle-class America there is a real market in US higher education that involves serious financial decisions. It is a market in which information about who pays how much for the same service is hard to come by. The published price is paid by some, but not by many. And probably no one pays the real cost of higher education, but that's a different issue.