Module I: Smart Choices for Earning More Income

Common Sense Economics ~ What Everyone Should Know About Wealth and Prosperity

http://CommonSenseEconomics.com/
INVESTMENT IN HUMAN CAPITAL

- Read: Invest in Education by Scott Niederjohn
- Watch: Is college worth the cost?

http://commonsenseeconomics.com/
INVESTMENT IN HUMAN CAPITAL

Education and human capital

- Human Capital: the knowledge, skills, health, and values that individuals possess.
- Increase through formal and informal education
- Leads to an increase in productivity and income
- Like all investments, it involves a tradeoff
INVESTMENT IN HUMAN CAPITAL

- Education and Earnings

![Earnings and unemployment rates by educational attainment](http://commonsenseeconomics.com/)

**Unemployment rate in 2013 (%)**
- Doctoral degree: 2.2, Median weekly earnings: $1,623
- Professional degree: 2.3, Median weekly earnings: $1,714
- Master's degree: 3.4, Median weekly earnings: $1,329
- Bachelor's degree: 4.0, Median weekly earnings: $1,108
- Associate's degree: 5.4, Median weekly earnings: $777
- Some college, no degree: 7.0, Median weekly earnings: $727
- High school diploma: 7.5, Median weekly earnings: $651
- Less than a high school diploma: 11.0, Median weekly earnings: $472

All workers: 6.1%, Median weekly earnings: $827

Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.
**INVESTMENT IN HUMAN CAPITAL**

- Calculating the Returns to Education: Find Total Earnings

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<thead>
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**INVESTMENT IN HUMAN CAPITAL**

- Calculating the Returns to Education: Find Lifetime Difference From High School

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## Investment in Human Capital

- Calculating the Returns to Education

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INVESTMENT IN HUMAN CAPITAL

Should everyone attend college?

- A college degree tends to increase earnings, but it is not necessarily for everyone.
- If you were a poor student in high school, you will likely be a poor student in college.
- Starting college only to quit without a degree is costly, both in money and the opportunity cost of your time.
- There are alternatives:
  - Trade or apprenticeship programs
  - Military service
  - Entrepreneurship
EDUCATIONAL CHOICES

- Read: Choosing a College: Does It Pay to Go to an Elite University? by James Gwartney, Richard Stroup, Russell Sobel, and David Macpherson
- Watch: Fed Student Aid- Overview of Financial Aid
EDUCATIONAL CHOICES

Types of Educational Institutions

- **Public**
  - Operated by state or local governments
  - Usually less expensive than private institutions
  - Price may vary for in and out of state residents

- **Private**
  - Operated by foundations, religious organizations or for-profit firms
  - Usually more expensive than public institutions
  - Price same for in or out of state residents

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EDUCATIONAL CHOICES

Types of Educational Institutions

- Four-year colleges and universities
  - Earn bachelor’s degree after four or more years of study
  - May also offer master’s or doctoral degrees
  - Universities are usually larger than colleges and may focus on scholarly research

- Two-year colleges
  - Sometimes called community colleges or junior colleges
  - Many four year colleges and universities have articulation agreements to continue towards a bachelor’s degree
  - Costs are lower than four-year institutions

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EDUCATIONAL CHOICES

Career Schools
- Technical, vocational, or trade schools
- Public, private or for-profit
- Classes and hands-on experience
- Areas of study include health care, electronics, welding, cosmetology
- May earn diploma or certificate
- May prepare for a licensing exam or to begin work as an apprentice or journeyman in a skilled trade
Should you attend an elite university?

- Elite schools tend to be very expensive, unless you have scholarships or other funding.
- Evidence suggests that students who go to elite schools would have similar earnings if they had gone to less selective, less expensive schools.
- This is not true for minorities; they benefit more from attending elite schools, possibly because of the connections such schools provide.
Financial Aid Process

- Free Application for Federal Student Aid (FAFSA)
  - fafsa.ed.gov

- Net Price Calculator
  - Examples
    - https://college.harvard.edu/financial-aid/net-price-calculator
    - http://finaid.williams.edu/financial-aid-calculator/
EDUCATIONAL CHOICES

Grants and loans

 Federal Pell Grant
  • Based on FAFSA results
  • Requires high level of financial need

 Federal Stafford Loan
  • Low interest rate
  • Flexible repayment options
  • Subsidized (government pays interest while in school)
    ○ Based upon income
  • Unsubsidized (borrower pays interest while in school)
    ○ Not based upon income

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EDUCATIONAL CHOICES

Researching Higher Education

- National Center for Education Statistics website: http://nces.ed.gov/collegenavigator/
  - Tuition and fees
  - Net price
  - Enrollment
  - Financial aid
  - Admissions
  - Retention
  - Graduation rates
  - Majors
  - And much more

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Educational Choices

Choosing the Right Major

- Consider your strengths and interests, along with the job market for your intended major
- Particularly important when taking on student loan debt
- Starting salary data by major available from National Association of Colleges and Employers
CAREER CHOICES

- Read: Career Planning for a Satisfying Job by Scott Niederjohn

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CAREER CHOICES

Career Planning

- Bureau of Labor Statistics’ Occupational Outlook Handbook:
  http://www.bls.gov/ooh/
  - Careers in demand today
  - Careers in demand in future
  - Human capital required for careers
  - Wages associated with career
CAREER CHOICES

Assessing Your Comparative Advantage

- What are you best at?
- Many online tools such as http://mappingyourfuture.org/planyourcareer/careership/
  - Assess interests and aptitudes
  - Match with careers
  - Career description and tasks and the education and skills required
Entrepreneurs

- An entrepreneur is one who innovates and takes risks in developing a product or business.
- Frequently independent, confident, hard working, well organized, self-starters
  - Costs: long hours, many businesses fail, lack security of firm
  - Benefits: own boss, potential for large earnings, set own schedule
- Even if one does not own a business, it is important to think like an entrepreneur.
CAREER CHOICES

Starting A Business

- Need unique idea
- Assess competitive environment
- Assure demand for the product
- Utilize resources from U.S. Small Business Administration

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