

## Ask: NUS economists

# How to decide whether to get a degree or start work

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For The Straits Times

**Q** *Is university the right choice for me?*

**A** Around this time every year, fresh A-level graduates are faced with a dilemma – whether to pursue a bachelor’s degree or to enter the workforce. A similar choice confronts polytechnic graduands each February.

What should we consider when making such a life decision? Broadly speaking, two things – the costs and the benefits of attending university.

The costs include out-of-pocket expenditure on tuition fees and books. For Singaporeans opting to study in local universities, tuition fees, though highly subsidised by the Government, can still be substantial, ranging from \$8,000 to \$26,000 per annum, depending on the course of study. Assuming a student enrolls in a four-year course, earning that degree could set him back by between \$32,000 and \$104,000.

Because pursuing a degree full-time necessarily implies that the student cannot participate in the labour market, one should also consider the forgone income which could have been earned if one had entered the labour market instead.

There are also psychic costs stemming from studying. Examinations and studying can be daunting.

Next, consider the benefits: What are the benefits to acquiring a degree? There are many. The most prominent is the higher labour market earnings. With a university education, individuals acquire more skills and knowledge that allow them to be productive in their workplace and be well compensated.

But how much more can you earn with a degree? Unfortunately, the answer is not simple. Estimates of the returns to higher education are notoriously variable and have been found to vary widely from country to country, across time periods and even studies.

Consider a polytechnic graduand looking to acquire a degree: In Singapore, the median gross monthly starting salary of university graduates in 2015 was \$3,300 while that for polytechnic graduates was approximately \$2,300.

Do these figures imply that an individual can expect to earn \$1,000 more in monthly starting salary (that is, 43 per cent more) just by having a degree? The answer is “no”. This is because the 43 per cent differential reflects not only the impact of a degree on starting salary, but also a host of other differences between university and polytechnic graduates.

For instance, economists have found that individuals who acquire

more education tend to have higher innate abilities as well as better parental backgrounds. Hence, at least part of the 43 per cent differential could be reflecting these advantages which university graduates have over their polytechnic counterparts.

In other words, estimates of the income gain from attending university, based on simple comparisons of median salaries, like those above, are likely to overstate the actual gains to a degree. In calculating the gains to continuing education, it might therefore be prudent to “discount” these simple differences somewhat.

Still, it is reassuring to know that the benefits of a degree are not limited only to starting salaries but are likely to grow with time.

A study by Ms Audrey Low and her Monetary Authority of Singapore (MAS) colleagues in 2004 found that the earnings of more educated workers in Singapore rise at a faster rate than those of less educated workers, as work experience increases, suggesting that the salary gains from having a degree are not only a long-term but also an increasing one.

A further consideration noted by research is that the choice of university matters. In particular, students who attend higher quality, more selective universities – as measured by the average scores of incoming freshmen on assessments such as the A-level or polytechnic exams – enjoy

significantly higher earnings later in life.

Attending university also allows one to build networks which might be useful later on. By allowing similarly high-ability people to come together and interact, the university environment is a fertile ground for new ideas and network formation. Consider the Singaporean company, Carousell. Its founders – Mr Quek Siu Rui, Mr Lucas Ngoo and Mr Marcus Tan – stumbled upon a business idea to create an app for people to sell their used goods in a simple way while they were on a National University of Singapore Overseas Colleges Programme in Silicon Valley. Today, they are successful entrepreneurs.

Less specifically, the networks built in university potentially help to enhance the employability of graduates by enabling them to acquire inside information about job availability and working conditions through peers in the network. Of course, there are also psychic benefits to having a degree – perceived higher social status or enjoyment in acquiring new knowledge.

The proportion of young people who have opted to invest in a degree has been rising rapidly. While only 8 per cent of 25- to 29-year-olds had a degree in 1990, approximately 53 per cent have a degree today.

Why is this so? The reason is changing costs and benefits to acquiring a degree. The benefits of

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a degree have been rising, fuelled in part by the rising relative demand for high-skilled labour. At the same time, costs have been falling, due to higher government subsidies for university education (which lower the monetary costs of acquiring a degree) and the rise of institutions offering shorter pathways to a degree (costs in terms of forgone income are now lower).

Furthermore, there are more opportunities to pursue a degree. Universities have expanded the number of places available, there are more private institutions offering degrees, and there are more pathways to entering a university.

The above decision-making framework applies not just to

university enrolment but to other types of training and education programmes as well.

Today, there are a myriad of training programmes available. How should one decide whether to enrol and what courses to enrol in?

Ideally, people should ask: How will this training programme benefit me? Will the skills I learn enable me to become more productive on the job? Will it enable me to become more employable, earn a higher salary, or increase my chances of promotion? Will it help me to meet more people and expand my networks? What are the costs of attending the programme? Will I have to forgo any income while I am on training? If so, how much? Could the time spent be used in other, more productive, ways?

Considering these questions will allow people to make better decisions on the right amount to invest in higher education and training.

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