

Student Aid, Repayment Obligations and Enrolment into Higher Education in Germany – Evidence from a ‘Natural Experiment’

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Abstract: We evaluate the effect of the federal students’ financial assistance scheme (BAfoeG) on enrolment rates by exploiting exogenous variation introduced through a discrete shift in repayment regulations. Supported students had to repay the full loan after graduation from their future earnings until 1990. Thereafter, only 50 percent of the loan has become due, the other half of student aid has been offered as a non-repayable grant. Using data from the German Socio Economic Panel, we test whether this substantial reduction of the net present costs to study has increased enrolment in higher education. Our results from simple difference-in-difference estimates and discrete-choice models suggest that the student aid is ineffective in raising enrolment rates. Our findings have important implications for the current political debate on the reform of financing higher education in Germany and elsewhere.

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