

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Monisankar Bishnu, Indian Statistical Institute (Delhi)

TITLE: Government intervention in education in the presence of consumption externalities

DAY & DATE: Friday, 27th August 2010

TIME: 11:30-1:00

PLACE: Seminar Room 2

Abstract:

Government intervention in education, typically in the form of education subsidies, is ubiquitous. The standard rationale for such intervention is a human capital externality. But recently, many empirical research have questioned the existence of such an externality. In this paper we steer clear of any type of spill over from human capital. We present an overlapping generations model to show that government intervention in education is recommended even if there is no human capital externality present in the economy. The necessity of government intervention in education in this model stems from the presence of consumption externalities. Also in a sharp contrast to the endogenous growth models that distinguish three possible capital accumulations regimes (Docquier et al, 2007 JET), in this model only two possible regimes are observed. Moreover, the presence of consumption externality does not generate any regime where the levels of accumulation of two types of capital (human and physical) differ from the social optimum in opposite directions. All types of externalities, except the balanced one, extend or reduce the size of this regime. Naturally the standard generational transfer arrangements required to achieve the planner's outcome from a laissez-faire economy need to be revised accordingly.

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