WORKING
PAPERS

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WORKING PAPER NO. 347

September 2020

BUREAU OF ECONOMICS
FEDERAL TRADE COMMISSION
WASHINGTON, DC 20580

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September 1, 2020

Abstract

A popular proposal to address the rising cost of higher education in the United States has been to provide tuition-free access to community colleges. This paper examines the effect of such a policy on college access, consumer welfare, and student outcomes accounting for equilibrium responses from for-profit and four-year competitors. I find that free community college increases enrollment by 26 percent, welfare for all students, and degree completions by 20 percent. I compare these findings to more fiscally practical implementations of free community college. Programs that only cover tuition after accounting for other sources of grants increase enrollment by 10 percent and degree

bill for wealthier students (English, 2019). On the other hand, advocates of free community college suggest that its mission is to broaden the base of who starts going to college in the first place (Amour, 2019). For example, early data from the Tennessee Promise Program, the first free community college program in the United States, suggests that more students are enrolling into community college, and more are also persisting in it (Wermund, 2019).

This paper aims to quantify the effect of free community college in terms of access to higher education, consumer welfare, and student outcomes, accounting for equilibrium responses from potential substitutes, for-profit colleges and nonselective four-year universities. In particular, incorporating other sectors of higher education will be important for understanding the policy's effect on welfare and outcomes, since the reduced price of community college could draw students away from higher performing four-year universities, or higher cost for-profit colleges. To do this, I estimate a model of demand and supply for higher education that incorporates a differentiated products market structure. I then use the model to compute counterfactual equilibrium outcomes under a variety of federal free community college proposals.

tive four-year universities as potential substitutes for community colleges because they tend to have similar admissions criteria; open or near-open enrollment. At the same time, each institution has its own set of characteristics that may influence which students choose to enroll. As a result, the college choice model resembles a differentiated products model of discrete consumer choice.

On the supply side, I naturally assume for-profit colleges set tuition prices to maximize profits. Furthermore, I assume that the objective of a nonprofit institution is to satisfy two factors: (1) financial success as measured by profits, and (2) the value the institution creates for students in its community. To model the latter factor, I borrow from the hospital competition literature and assume the community's value of an institution is given by students' average willingness-to-pay for the college or system of colleges. Nonprofit institutions set tuition prices to maximize a Cobb-Douglas function that considers its two objectives. The weight on the profit maximization objective is estimated using a general method of moments estimator, following Gowrisankaran et al. (2015). I assume colleges compete in a static Nash pricing game such that the equilibrium of this game yields the observed prices found in the data. I then use the equilibrium pricing behavior of the schools to uncover marginal costs at for-profit colleges, and marginal costs and the weight on profit maximization at nonprofit institutions.

Using the estimated demand-side and supply-side parameters, I consider the pricing equilibrium under the counterfactual of a "free-for-all" community college plan implemented at the federal level that is supplementary to existing financial aid programs, and examine its impact on access to higher education, consumer welfare, and degree completions. I find that overall enrollment into higher education would increase by 26 percent, with 83 percent of the increase at community college due to students who would have otherwise not enrolled in higher education. In addition, I find that the policy would *increase* average tuition prices at for-profit and nonselective four-year colleges, since low-income, price sensitive students would substitute away, leaving these colleges more price inelastic at the margin. I further use compensating variation to measure the overall welfare impact of free community college finding that students in the NPSAS sample, on average, would pay $498 to have free community college. Compensating variation was also higher for students with incomes between $25,000 and $75,000, suggesting that middle-income students benefit the most from the policy. Specifically, benefits for low-income students are more moderate because free community college just alters their loan borrowing behavior, meaning the welfare improvements are realized tomorrow, rather than today. Overall, I find that the introduction of free community college would increase higher education degree completions by about 22 percent.

I compare these findings to "last dollar" programs, i.e., aid that covers the student's cost of attending a community college *after* accounting for the amount received in federal grants. These programs have been more popular in terms of implementation because they rely on less financial resources. I find that the implementation of a last dollar program would increase enrollment by 10 percent, with 88 percent of the increase at community colleges due to new enrollees. This produces lower levels of access compared to the fully free community college program because the most price sensitive students do not receive any additional aid; these are the students most likely to alter their higher education decisions. Furthermore, the welfare analysis suggests that compensating variation is almost negligible for students with income less than $25,000; this is due to the fact that low income students would likely not benefit from the program, since Pell Grant aid typically covers the cost to tuition at community colleges. Likewise, high income students, as defined by those with incomes greater than $75,000, are the ones who would benefit the most from a last dollar program with the largest compensating variation. I find that the introduction of a last dollar community college program would increase degree completions by 11 percent.

Finally, I examine the counterfactual of placing need-based eligibility restrictions on free community college. In particular, I consider a policy that makes community college free for low-income students. Overall, I find that need-based programs would increase enrollment by 12 percent. However, this would only benefit low-income students, and would actually *harm* middle- and high-income students due to equilibrium price increases at for-profit and nonselective four-year colleges in response to inter-sector substitution from price sensitive students. Furthermore, a need-based program would only increase degree completions by about 4 percent, which is significantly lower than that of the other two free community college programs.

Ultimately, this analysis suggests that all of the free community college programs would increase enrollment and degree completions, with larger effects for a fully free community college scheme. However, last dollar programs disproportionately benefit higher income students, with little to no effect for low-income students. Need-based programs benefit the target population, but may actually harm other students and do little to improve overall completions. I proceed with the rest of this paper by discussing the background of promise programs in the United States, introducing a model of higher education, discussing the data, identification, and estimation used calibrate the model, and finally applying counterfactual

Promise programs can be distinguished by three features (Pingel et al., 2016). The first is eligibility criteria. Many active promise programs have eligibility requirements that may include residency, age, and merit factors. For example, the Tennessee Promise Program is only available for recent graduates from a Tennessee high school.[2] The second feature is the definition of free. Specifically, most promise programs cover tuition and fees, but leave other costs, such as textbooks and living expenses, as a burden on the student. Finally, the third feature is the timing of the award. Program funding can be applied either before or after other sources of financial aid, such as Pell Grants, are taken into account. “First-dollar programs” apply aid before other sources and allow students to accumulate additional financial support. On the other hand, “last dollar programs” will only cover the cost of community college after other sources are counted, leaving some federal aid recipients functionally ineligible for the program.

Advocates for free community college have argued that promise programs can make higher education more affordable for many students, and increase access for those who may traditionally not pursue higher education, such as low-income and older students. In addition, promise programs could deter students from attending high-price for-profit colleges that have demonstrated poor outcomes. Critics of free community college have argued that some lower-income, price sensitive students may be attracted away from 4-year colleges, leading to “undermatching.” In addition, they could lead to funding and capacity issues at community colleges, and last dollar programs are often criticized for providing little, if any, financial assistance to low-income students, since Pell Grant awards will typically cover tuition and fees.

There have been a handful of studies that have looked into promise programs and their effect on students and communities. Recent studies have examined the effect of statewide promise programs in Tennessee (Carruthers, 2019; Bell, 2018) and Oregon (Gurantz, 2020), finding overall increases in college enrollment, with moderate decreases at four-year colleges. Earlier studies have explored the effect of free college endorsed by local governments and communities, such as in Kalamazoo, MI (Andrews et al., 2010; Bartik et al., 2019), Pittsburgh, PA, (Bozick et al., 2015; Page et al., 2019), and Knox, TN (Carruthers and Fox, 2016), finding increases in enrollment and completions.

Avery et al. (2019) used a simulation study to examine the impact of four different higher education policies, finding that free community college was the least cost effective at improving college completions. This was in part because too many students would divert away from higher performing four-year colleges. Some of the empirical literature corroborates

[2] Tennessee has also introduced the Tennessee Reconnect Program, which is similar to Tennessee Promise, but for adult learners.

for-profit colleges, and N_m nonselective four-year nonprofit institutions. I define community colleges as degree-granting institutions that take two- or fewer years to complete, for-profit colleges as degree-granting institutions designated as for-profit, and nonselective four-year nonprofit colleges as degree-granting institutions that take four years to complete and are open enrollment, e.g. do not require standardized testing, letters of recommendations, etc. for admission. Let S_m be the set of higher education institutions available to students in market m, with an outside option of not enrolling in higher education indexed by 0.

3.1.1 Utility

Suppose students live for two periods: "today" and "tomorrow." Student i's utility from attending school j today and tomorrow are given by:

$$v_{ij} = \alpha \log(c_{ij}) + x_j^T \beta + \sum_n x_{jn} d_i^T \gamma_n + \xi_j + \varepsilon_{ij} \quad (1)$$

$$v'_{ij} = \alpha \log(c'_{ij}); \quad (2)$$

where c_{ij} is student i's consumption today if she attends institution j, x_j is a vector of observable school characteristics, and d_i is a vector of observable student characteristics. Furthermore, c'_{ij} is student i's consumption tomorrow from attending institution j. The coefficient α represents the marginal utility of consumption, β represents the mean preferences for observed school characteristics, γ_n represents heterogenous preferences for school characteristics by student characteristics, ξ_j represents an average unobserved preference for school j, and ε_{ij} is unobserved idiosyncratic preferences for school j.

The student's objective is to maximize her present value of utility for attending school j, which is given by

$$V_{ij} = v_{ij} + \delta E(v'_{ij});$$

where δ is the discount rate for future utility and $E(v'_{ij})$ is the expected value of utility tomorrow. In other words, students do not perfectly observe their future utility, but rather have some expectation of what their utility can be when they choose to attend institution j. When maximizing her present value of utility, the student is subject to binding budget constraints, such that

$$c_{ij} + p_j = y_i + g_{ij} + l^f_{ij} + l^p_{ij} \quad (3)$$

$$c'_{ij} + R^f_i l^f_{ij} + R^p_i l^p_{ij} = y'_{ij}; \quad (4)$$

where equation (3) represents the budget constraint in the today period, and (4) represents the budget constraint in the tomorrow period. In the today period, y_i is the student's income today, p_j is the price paid to attend school j, g_{ij} is the amount of federal grants student i receives for attending school j, and l^f_{ij} and l^p_{ij} are the amount of federal and private loans student i borrows when attending school j, respectively.[3] In the tomorrow period, y^0_{ij} is the income student i earns from attending school j, and R^f_i and R^p_i are the accrued interest owed when taking out an additional dollar of federal and private loans, respectively.

To derive the distribution of v^0_{ij}, I solve the binding budget constraint for consumption tomorrow, given by equation (4), and assume that students believe their future income is log-normally distributed, such that $y^0_{ij} \quad \log N(\ _j;\ \ _j)$.[4] From equation (2), this implies that the distribution of v^0_{ij} is normal, such that

$$v^0_{ij} \quad N \quad (\ _j \quad R^f_i l^f_{ij} \quad R^p_i l^p_{ij});\ \ ^2\ \ ^2_j\ :$$

Plugging in the expectation of v^0_{ij} into the present value of utility and applying the binding budget constraints, student i's indirect utility for attending institution j can be written as

$$V_{ij} = \quad \log(y_i \quad n_{ij}) \quad {}^f_i l^f_{ij} \quad {}^p_i l^p_{ij} + x^T_j \quad + \sum_n x_{jn} d^T_i \ \ _n + \ \ _j + "_{ij}$$

where $n_{ij} = p_j \quad g_{ij} \quad l^f_{ij} \quad l^p_{ij}$ is the net price of attendance, $\ _i = \ R_i$ represents the discounted accrued interest from borrowing an extra dollar of each type of loan, and $\ _j = \ _j + \quad _j$ represents a school-specific utility term that includes unobserved features of school j, as well as the utility from future discounted expected income.[5] I assume that $\ ^f_i$ and $\ ^p_i$ are distributed according to the distributions F_f and F_p, respectively.[6]

To maximize her present value of utility, the student has four choice variables:[7] the

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[3] For each student, income in the NPSAS sample is defined by the parent's income for dependent students, and the student's income for independent students. The extent to which dependency status is endogenous with college choice, e.g. parents would pay for particular colleges but not others, is not explored here.

[4] Specifically, because y^0_{ij} is log normal, then c^0_{ij} is a shifted log-normal, and v^0_{ij} is normally distributed.

[5] This assumes that expected returns to education only vary at the institution-level, but not the individual-level. Individual-level variation can be incorporated if it is assumed to be separable from institution-level effects; in this case, the individual-level returns will be linear in the indirect utility function. This will shift utilities in parallel (since it is the same for all alternatives for a given individual), thus will not affect the student's college and financial aid choice.

[6] This formulation assumes students view the interest rate as a constant, while in reality interest rates can vary over time for some types of loans. In addition, federal loans are subject to forgiveness programs and alternative repayment plans that could affect the stock interest rate or the student's ability to pay back their loan. I view the accrued interest parameters as the *expected* discounted marginal accrued interest that implicitly averages over this temporal variation.

[7] In principle, students also have the ability to make additional choices, such as college major. Because of

institution j to enroll in, the amount of grants g_{ij} to accept, and the amount of federal and private loans, l_{ij}^f and l_{ij}^p, to borrow.[8] For federal loans, students are subject to borrowing limits, such that they are only allowed to borrow up to $\bar{L}$. Private loans, on the other hand, are assumed to not be subject to a maximum. The student chooses these variables to maximize her indirect utility V_{ij}. Because grants and loans can vary by institution, the student's optimization problem can be solved in two parts. First, the student can derive her optimal financial aid package for each institution. Then, she can select the utility maximizing college, given that she knows her optimal financial aid package for each alternative.

3.1.2 Federal grant aid

For most students, the main source of federal grants is Pell Grants. The amount the student receives depends on financial need. In particular, every student planning on enrolling into an institution of postsecondary education must fill out a Free Application for Federal Student Aid ("FAFSA"). Here, the student indicates their demographic information, as well as dependence status and income level. Using this information, the government calculates the student's Expected Family Contribution ("EFC"), a measure of how much the student can contribute towards higher education, and uses this, as well as a school's cost of attendance, to determine the amount of the award. The award is disbursed according to a function determined by the U.S. Department of Education:

$$g_{ijm} = G(p_{jm}; EFC_i)$$

where p_{jm} is the cost of attendance and EFC_i is the student's expected family contribution. The financial aid function $G(\cdot;\cdot)$ is described by an award chart that represents a step function in both arguments.[9] Because grants are essentially free money, I assume students will always accept them when offered.

While other grant programs exist, Pell grants are by far the most prominent; in the NPSAS sample, approximately 97.3 percent of all federal grants were from the Pell program. In addition, some institutions, especially four-year nonprofits, will offer their own financial assistance through need-based grants and merit scholarships. However, the NPSAS data also

the wide array of major types offered by community and for-profit colleges, I decided to abstract away from this choice.

[8]The notion that financial aid is a choice variable for the student can be supported by the fact that the US Department of Education issues guidance on which type of aid to accept, and how much of it to receive. For example, they suggest to "borrow only what you need! If your living expenses are not going to be as high as the amount estimated by your school, you have the right to turn down the loan or to request a lower loan amount." See https://studentaid.gov/complete-aid-process/accept-aid.

[9]An example of the award chart: https://ifap.ed.gov/dpcletters/attachments/GEN1502Attach.pdf

shows that this is rare for for-profit colleges, community colleges, and nonselective nonprofits; the third quartile of institutional aid is zero within all three sectors.

3.1.3 Student loan choice

There are two types of loans the student can non-exclusively borrow from: federal and private. The student's objective is to select the amount of each loan to borrow such that her present value of utility is maximized. Because she is allowed to borrow a different amount at each school, the student can solve for her optimal loan profile condition on attending each choice can succinctly be written as:

$$l_{ij}^{f} = I[\alpha_i^{f} \geq \alpha_i^{p}] \cdot \min\{\max\{\ell_{ij}^{f}; 0\}; L\} \tag{7}$$

$$l_{ij}^{p} = \max\{\ell_{ij}^{p} - l_{ij}^{f}; 0\}; \tag{8}$$

such that $I[\,]$ is the indicator function.

3.1.4 College choice

Given the optimal loan profile for each college, the student then selects the school that maximizes her expected utility. I normalize utility tomorrow in the outside option of not attending college as zero. Assuming ε_{ij} is identically and independently distributed Type I Extreme Value, the probability college j is chosen by student i is given by:

$$s_{ij} = \int \frac{\exp(\delta_{ij} + x_j^T \beta + \sum_n x_{jn} d_i^T \pi_n + \xi_j)}{\sum_{k \in S} \exp(\delta_{ik} + x_k^T \beta + \sum_n x_{kn} d_i^T \pi_n + \xi_k)} \, d$$

Figure 1: *Plot of indirect utility as a function of tuition price for customers with lower interest for federal loans (top), and lower interest for private loans (bottom).*

increase in tuition, and will dictate substitution patterns. In particular, it is written as follows:

$$\frac{\partial \;_{ij}}{\partial p} = \frac{1}{y_i \quad n_{ij}}(1 \quad z^f_{ij} \quad z^p_{ij}) \quad {}^f_i z^f_{ij} \quad {}^p_i z^p_{ij} \;;$$

where z^f_{ij} and z^p_{ij} are indicators for whether or not student i is borrowing from federal and private loans, respectively, and is below the maximum.

Thus, the extent to which students are responsive to changes in the tuition price depends on whether they are taking out a student loan, and if they can borrow more. Consider the case where the student is not borrowing from either federal or private loans, so that $z^f_{ij} = z^p_{ij} = 0$. Suppose, tuition increases by a small amount, say \$1. In this case, the small increase will likely not alter the students decision to borrow or not borrow. Thus to attend institution j, the student will pay for the additional dollar by reducing her consumption today by \$1. As a result, the student's utility will change by $= (y_i \quad n_{ij})$.

Next, consider the

z^f_{ij}

consumption tomorrow will decrease by the accrued interest she must pay for that additional dollar. The marginal utility of price is then $^{f}_{i}$. Finally, if the student is taking out a private loan, such that $z^{p}_{ij} = 1$ and $z^{f}_{ij} = 0$, her consumption tomorrow will decrease by the accrued interest she must pay for that additional dollar, and the marginal utility of price is $^{p}_{i}$.[11]

Figure 1 plots a hypothetical example of how indirect utility changes as tuition increases for students with $^{f} < {}^{p}$, and $^{f}\ \ {}^{p}$. Panel (a) represents how utility changes with tuition for students in which federal loans are cheaper ($^{f} < {}^{p}$). For prices less than p_1, the student will not take out any loans and will self-fund her education yielding a marginal utility of $= (y \quad p)$. In other words, she will forgo consumption today to pursue higher education. For prices above p_1, but below p_2, the student will only borrow from federal loans, where at price p_2 the federal loan limit will be reached. Thus, between p_1 and p_2, the student will forgo consumption tomorrow for her education, and will have a marginal utility of ^{f}. Between p_2 and p_3, the student will borrow the federal limit, and self-fund the di erence between tuition and the federal maximum. In this range, the student will self-fund because private loans are too expensive, but she cannot borrow any more from federal loans. For prices above p_3, the student will turn to borrowing private loans, and will have a marginal utility of ^{p}. Panel (b) represents the analogous case for students in which private loans are cheaper ($^{p} < {}^{f}$); in this case, the student will self-fund until the price reaches p_4, in which case she will turn to private loans.

3.2 Higher education institutions

For-pro t institutions are assumed to be pro t maximizers. Suppose each rm f operates a set of institutions S^{FP}_{f} in market m. The rm sets the tuition price of institution $j \ 2 \ S^{FP}_{f}$ by maximizing its joint pro ts:

$$\underset{p_j}{\text{argmax}} \sum_{k 2 S^{FP}_{f}} (p_k \quad c_j) D_k(p_j; p \ _j);$$

where p_j is the tuition price, c_j is the marginal cost of enrolling an additional student, and $D_k(\ )$ is the number of enrollees in institution k as a function of institution j's tuition, as well as the tuition of all other institutions in the market $p \ _j$. The rst order conditions of

[11] Recall that the optimal loan pro le will either take out only private loans, or will take out private loans if the student has exhausted all federal loans. Thus, z^{p}_{ij} and z^{f}_{ij} can never be equal to 1 at the same time.

the for-profit firm's optimization problem is given by:

$$D_j(p_j; p_{-j}) + \sum_{k \in S_f^{FP}} (p_k - c_k) \frac{\partial D_k(p_j; p_{-j})}{\partial p_j} = 0. \tag{11}$$

Nonprofit colleges, unlike for-profit colleges, do not necessarily maximize profits.[12] Instead, nonprofits, especially community colleges and public nonselective 4-year institutions, were established to provide affordable access to higher education. To model the objective function of nonprofit colleges, I assume that institutions set prices to achieve two goals: (1) maximizing profits, to optimize the amount the institution can reinvest on student services and amenities, and (2) the value it provides to students in the market, as measured by students' average willingness-to-pay for college j.[13]. Let S_n^{NP} represent the set of community colleges owned by nonprofit entity n. The pricing problem is to set a tuition for college j that maximizes the system's joint objectives:

order conditions and rearranging; the first-order condition is given by:

$$D_j(p_j; p_{-j}) + \sum_{k \in S_n^{NP}} \left[\frac{\partial D_k}{\partial p_j} + \frac{1-\omega_j}{\omega_j} \frac{D_k(p_j; p_{-j}) A_j}{B_j} \right] (p_k - \kappa_k) = 0 \tag{13}$$

where

$$\begin{aligned} A_j &= \frac{\partial V(p_j; p_{-j}; S)}{\partial p_j} = \int \frac{\partial \delta_{ij}}{\partial p_j} s_{ij} \, dF_f \, dF_p dF_d \\ B_j &= V(p_j; p_{-j}; S) - V(p_{-j}; S \setminus S_n^{NP}). \end{aligned}$$

As a result, the first-order conditions for nonprofit colleges resembles that of for-profit colleges, with an additional term that represents the school's preference for maximizing its value to the market. The objective function of nonprofit colleges, given by equation (12), resembles a Nash bargaining problem similar to the models used in the health economics literature, where competition models assume hospital systems and health insurers bargain over reimbursement rates (Town and Vistnes, 2001; Capps et al., 2003; Gowrisankaran et al., 2015).[14] Here, a nonprofit colleges can be seen as "negotiating" with itself between two opposing goals: financial success and the value it provides to the community.

The solution concept for tuition pricing at for-profit and nonprofit colleges is a Nash equilibrium. Each for-profit college solves (11) and each nonprofit institution solves (13) given the prices of all other schools p_{-j}. Within each market, equilibrium tuition prices solve the system of equations given by (11) and (13), for all schools j.

4 Identification and Estimation

I estimate the parameters of the model in three steps. First, I use the student loan choice model to estimate the distribution of federal and private accrued interest, θ_i^f and θ_i^p. Second, I estimate the parameters of the demand model, given the accrued interest distributions. Finally, I use the demand model to estimate the marginal cost of for-profit colleges and the net marginal cost and profit weight of nonprofit colleges. This section proceed as follows: I begin by discussing market definition and the data sources used for estimation. I then describe the identification and estimation of each step in turn: the loan parameters, the demand parameters, and the supply-side parameters.

[14] In the hospital setting, willingness-to-pay is used to approximate the hospital system's value to the insurer's profits, e.g. marketability to potential beneficiaries. In this setting, I assume willingness-to-pay is a direct objective of a nonprofit college.

4.1 Market definition

To define each market, I consider two components: (1) a product component and (2) a geographic component. In terms of the product component, I include community colleges, degree-granting for-profit colleges, and nonselective four-year nonprofit institution. Degree-granting for-profit colleges refer to those that have a wide range of programs offered that are comparable to the programs offered by community colleges. This excludes very narrow vocational certificates and degrees, such as cosmetology or culinary arts, since students pursuing these fields may only consider a narrower set of colleges related to their desired vocation. Nonselective four-year institutions include public and private nonprofit colleges that are designated as open enrollment, i.e. do not require test scores, high school grade point average, or letters of recommendation for admission. In terms of the geographic component, I assume markets are defined by core-based statistical areas ("CBSA").[15] While previous studies, particularly for for-profit colleges, have defined a market as a county (Cellini, 2010; Cellini et al., 2016), CBSAs (which are groups of counties) more appropriately capture students willingness to travel for nonselective four-year universities.

4.2 Data

The data used for analysis comes from two primary sources: The National Postsecondary Student Aid Study ("NPSAS") and the Integrated Postsecondary Education Database System ("IPEDS"). The NPSAS is a restricted-use, nationally representative random sample of first-time college students obtained through the National Center for Education Statistics. It is used to study characteristics of students in postsecondary education, with a focus on finances and financial aid decisions. This includes information on income, expected family contribution, grants received, and student loans bodomvomvodomodlby

Table 1: Descriptive statistics from the IPEDS and NPSAS sample

	All Sectors	Community College	For-profit College	Nonselective 4-year
		A. IPEDS		
Observations	1,167	500	545	122
Avg. enrollment	2,522	4,039	889	3,600
Avg. tuition ($)	5,515	2,685	16,622	6,280
Avg. student-faculty ratio	23.5	23.8	23.6	21.8
Offer life credits (%)	62.3	67.4	36.9	67.4
Offer distance learning (%)	91.1	99.8	49.9	96
Offer evening classes (%)	72.3	74.5	68	67
Offer placement services (%)	87.3	87.3	82	93.2
		B. NPSAS		
Observations	18,650	8,760	8,210	1,680
Avg. Pell Grant ($)	2,615	2,371	2,909	2,444
Avg. Federal Loan ($)	3,854	1,579	6,363	3,451
Avg. Private Loan ($)	552	67	1,143	193
Avg. Income ($)	38,965	41,788	34,374	46,682
Avg. EFC ($)	4,810	5,285	3,992	6,335
% Dependent	53.4	60.7	43.7	62.7
% Female	52	53	50.9	52.8
% Minority	30	31.7	29	26.7
% Older than 25	29.3	23.9	36.2	23.7

NOTE: Observations in IPEDS sample represents number of institutions, while observations in NPSAS sample represents number of students. Tuition is the published price in IPEDS.

SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall 2011; and 2011-12 National Postsecondary Student Aid Study (NPSAS:12).

while, for-profit colleges had an average tuition price that was several times larger than that of community colleges, and nonselective four-year colleges had enrollments and tuition between the other two sectors. The last five rows of Panel A displays institutional characteristics; nonselective colleges tend to have smaller class sizes, while for-profit colleges are less likely to offer credits for life experience, distance learning, and placement services than the other sectors. In addition, community colleges are more likely to offer evening classes.

The NPSAS sample contains 18,650 observations of students who enrolled in one of the IPEDS institutions. Panel B of Table 1 displays descriptive statistics for the NPSAS sample, again broken down by higher education sector. Overall, the table suggests that the NPSAS sample yields a relatively strong representation of the IPEDS sample. In particular, the volume of students in each sector broadly follows the respective proportion of enrollment from the IPEDS sample. Furthermore, the table suggests that for-profit students receive more Pell Grants, while simultaneously borrowing more from both federal and private loans. Finally, the student characteristics displayed in the last six rows of the panel corroborate the notion that students attending community and for-profit colleges are less traditional; these are students that tend to come from backgrounds that are lower income, are less dependent on their parents, are more likely to be minorities, and are more likely to be older. These features are significantly more pronounced at for-profit colleges.

4.3 Financial aid parameters

As a first step, I identify the distribution of the accrued interest parameters, ^f_i and ^p_i, using the student-level NPSAS data. In particular, I assume that the distribution of accrued interest on federal loans F_f is given by a log-normal distribution with parameters $\mathbf{d}_i^T \;^f$ and $_f$. In other words, I assume

$$^f_i = \exp(\mathbf{d}_i^T \;_f + \;_f \;_i);$$

where $_i$ is a standard normal random variable; each student's accrued interest on federal loans may depend on their demographics $\mathbf{d}_i$, and an unobserved shock $_i$. Furthermore, I assume the accrued interest on private loans ^p_i takes the form:

$$^p_i = \;^f_i$$

Table 2: Federal and Private Loan Observation Cases

Case	Observation	$_i^f < \ _i^p$	$_i^p \ \ _i^f$	# of Obs.
1	(0; 0)	$\grave{}^f \ \ 0$	$\grave{}^p \ \ 0$	7,790
2	(f; 0)	$0 \ \ \grave{}^f = f < L$		5,100
3	(L; 0)	$\grave{}^p < L \ \ \grave{}^f$		4,110
4	(L; z L)	$L < \grave{}^p = z$		1,510
5	(0; z)		$0 \ \ \grave{}^p = z$	150

NOTE: The variables f and z are positive real numbers that represent the observed amount of federal and private loans in each case, respectively. Number of observations are rounded to the nearest ten.
SOURCE: U.S. Department of Eduction, National Center for Education Statistics, 2011-12 National Postsecondary Student Aid Study (NPSAS:12)

in situations where the student ever takes out a federal loan (cases 2-4), with those that only borrowed from private loans (case 5). Furthermore $_p$ is identi ed by capturing the remaining variance not explained by the demographics.

While the observation of cases can help identify the private loan interest parameters $_p$ and $_p$, the actual level of loans borrowed can be used to identify the federal interest parameters, $_f$ and $_f$. In particular, recall that the optimal loan pro le without any constraints takes the form of the latent variables given in equations (5) and (6). That is, the optimal amoun

$$loan_i \quad (p_j \quad y_i \quad g_{ij}) = \frac{1}{_i(\ _f; \ _f)};$$

where $_i$ represents either $_i^f$ or $_i^p$, which is a function of the parameters $_f$ and $_f$, and $loan_i$ is 1(v175t1(observ)27(ed)-381(amoun)28(t)-381(of)-381(loans)-381(3 Td [0 557l8(w)27(ed.)-599(In)-
vate loans are censored from 1]TJ 0elow, 1444(v)54(ariation)-421(in)-420(the)-421(di erence)-421(of)

resembles a censored regression. Furthermore, because the observed loans will depend on which type of loan is less expensive, the likelihood of each cases resembles a nite mixture of defined by equation (10) equal to observed enrollments from the aggregate-level IPEDS data (or equivalently, predicted market shares equal to observed market shares). The moment conditions identify the institution-specific fixed effects since there exists unique values of the unobserved institution-specific terms $_j$ that satisfies the conditions, as described by the contraction mapping in Berry (1994). Given that the institution-specific fixed effects are identified through the moment conditions, variation in the NPSAS data can then identify the the remaining college choice parameters $_2$.

Estimation is done using constrained simulated maximum likelihood. The estimates of $_2$ and $= (_1; \ldots\, _n)$ are the solution to the following constrained optimization problem:

(

marginal costs are given by:

$$c = p + \quad ^{-1} D;$$

where c is a vector of marginal costs, p is a vector of tuition prices, D is a vector of enrollment quantities, and is a matrix that takes a value $@D_k = @p_j$ when row j and column k belong to the same firm f, and zero otherwise.

For nonprofit colleges, I borrow from the hospital bargaining literature and estimate the supply-side parameters, profit weight $!_j$ and net marginal cost $_j$, following Gowrisankaran et al. (2015). In particular, I assume net marginal costs at nonprofit colleges can be decomposed as:

$$_j = \quad v_j + \quad _j;$$

where v_j is a vector of state indicator variables, and $_j$ is an econometric error. In other words, there exists common subsidies by state that factor into the institution's net marginal cost. Furthermore, I suppose the profit weight varies by nonprofit sub-sector: public university, private university, and community college. The identifying moment condition is that the expectation of the econometric error $_j$, conditional on a set of exogenous covariates z_j is equal to zero. In matrix notation, the moment condition can be obtained by inverting the nonprofit's first order condition to solve for net marginal cost:

$$E(\;|z) = E \quad v + p + (\quad + \quad (!))^{-1} D | z \quad = 0;$$

such that $(!)$ is a matrix that takes on the value $(1 \quad !)=! \quad A_j = B_j \quad D_k$ when row j and column k belong to the same nonprofit system, and is equal to zero otherwise.

As instruments z_j, I include state and nonprofit sub-sector indicators, as well as total enrollment and the predicted value of college j to the market. Identification of the parameters are through a linear instrumental variables regression conditional on marginal costs that can be recovered from the nonprofit's first-order conditions. As discussed in Gowrisankaran et al. (2015), identification of the parameters $!$ likely have similar equilibrium implications to fixed effects, and thus cannot easily be identified at the same level of the marginal cost parameters . As a result, $!$ varies only by institutional sub-sector, while varies only at the state level. Finally, I estimate the parameters and $!$ using the general method of moments.

Table 3: *Loan estimation results*

	Federal loans	Private loans
	1.101	0.668
	(0.010)	(0.016)
Constant	-6.258	1.531
	(0.052)	(0.082)
Non-white	0.238	-0.034
	(0.021)	(0.032)
Over 25	-0.492	0.020
	(0.028)	(0.042)
Female	-0.005	0.079
	(0.019)	(0.030)
Dependent	-0.454	0.178
	(0.027)	(0.042)
Income (log)	-0.345	-0.015
	(0.005)	(0.007)

NOTE: Standard errors are in parentheses. Estimation done using simulated maximum likelihood with 200 draws. The number of total observations used is 18,650 and maximized likelihood is -21359.6 with a pseudo R-squared of 0.18.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall 2011; and 2011-12 National Postsecondary Student Aid Study (NPSAS:12).

5 Results

Table 3 presents estimates of the nancial aid parameters b_1. The student characteristics used as covariates in the accrued interest model includes race, age, gender, dependence status, and (log) income. The rst column presents the parameters for federal interest, while the second column presents the parameters for the di erence in federal and private interest. The federal interest parameters suggest that younger, minority students that were not dependent on their parents tend to face higher levels of accrued interest. Furthermore, the coe cient on income was large and negative, suggesting that low income students also faced a higher cost of borrowing student loans. Overall, this implies that conditional on the amount needed to attend a given institution, students that are more traditionally well-o face lower costs to borrowing a loan, and will borrow more all else equal. This is consistent with the literature that suggests students from more nontraditional backgrounds tend to have more trouble paying back loans (Dynarski, 1994; Flint, 1997). The second column of Table 3 shows a large and positive constant for the private loan parameters, suggesting private loans were on

Table 4: *College enrollment estimation results*

		Student Characteristics			
	Mean	Minority	Over 25	Female	Income $25k
Price ( )	15.465				
	(0.082)				
For-profit	-0.628	0.376	0.099	0.588	4.513
	(0.382)	(0.098)	(0.132)	(0.089)	(0.137)
Student-faculty ratio (log)	-0.459	0.003	-0.796	-0.085	-1.264
	(0.331)	(0.063)	(0.079)	(0.058)	(0.076)
Life credits	0.076	-0.078	0.058	0.333	-0.510
	(0.291)	(0.082)	(0.116)	(0.074)	(0.091)
Distance learning	-1.646	-0.498	-0.866	0.382	-1.037
	(0.615)	(0.152)	(0.176)	(0.143)	(0.167)
Evening courses	0.007	-0.483	0.371	0.368	-0.380
	(0.308)	(0.091)	(0.125)	(0.080)	(0.100)
Placement services	-0.626	-0.025	-1.269	-0.294	0.640
	(0.468)	(0.123)	(0.143)	(0.109)	(0.135)
Urban location	0.517	0.579	0.130	0.075	0.235
	(0.262)	(0.078)	(0.109)	(0.070)	(0.087)

NOTE: Standard errors are in parentheses. Estimation done using simulated maximum likelihood with 200 draws. The number of total observations used is 18,650, and maximized likelihood is -48096.6 with a pseudo R-squared of 0.25. Estimates for mean institutional characteristics (except for price) are estimated using a minimum distance estimator.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall 2011; and 2011-12 National Postsecondary Student Aid Study (NPSAS:12).

average more expensive. Furthermore, female and dependent students faced higher private interest, suggesting these students borrowed less from private institutions relative to other students.

Table 4 presents estimates of the parameters to the college choice model. Standard errors are corrected for the two-step procedure, following Murphy and Topel (2002). The first column presents the mean utility estimates for eight institutional characteristic covariates, including net cost of attendance, for-profit status, the (log) student-faculty ratio, whether the institution accepts life experiences as credits, whether the institution offers distance/online learning opportunities, whether the institution offers evening courses, the existence of placement services, and whether the college is located in an urban locale. The coefficient on net cost of attendance is large and positive, suggesting that students are very price sensitive. The mean utility estimates also suggests that students on average receive a disutility from attending a for-profit college, possibly influenced by a contemporaneous wave of negative press. Columns 2-5 provide interactions between the covariates and student characteristics, which include race, age, dependence status, and income (whether the student's income is below $25,000). While students dislike for-profit colleges on average, low-income students have a strong preference for them. In addition, students generally have a disutility for large class sizes, while older students have a preference for evening classes, likely because some may hold full-time jobs.

Furthermore, the median implied own-price elasticity for community colleges is 1.26, with 42 percent of institutions in the sample below 1, suggesting that the prices set by community colleges are generally not consistent with profit maximization.[17] Nonselective four-year colleges have a median elasticity slightly higher than community colleges of 2.21, with 20 percent having an own-price elasticity below 1. Finally, the median own-price elasticity for for-profit colleges is about 3.32, with only one for-profit college in the sample having a value below 1, suggesting that pricing at for-profit institutions is in fact consistent with profit maximization.

Under the equilibrium assumptions, marginal costs for for-profit institutions, and profit weights and net marginal costs for nonprofit institutions can be recovered. The first row of Table 5 display the first quartile, median, and third quartile marginal costs at for-profit

Table 5:

of students.[18] Second, the characteristics and objectives of higher education institutions do not change due to the implementation of free community college. For example, it may be possible for for-profit or nonselective four-year colleges to offer a different set of programs, or change its profit weight, in response to the policy. Third, I also assume that there is no entry or exit of institutions in the short run; enrollment loses to community colleges could alter the viability of operation in the long run for some institutions. Finally, I assume that free community college is supplementary to existing aid programs, like Pell Grants, and does not replace them.

6.1 Equilibrium effects

Table 6 summarizes the equilibrium changes after the introduction of each free college program. Panel A displays pre-policy enrollment, the average tuition price paid, and the average amount borrowed in federal loans, by higher education sector, as a baseline reference. Using the aggregate-level IPEDS data, the baseline for the counterfactual analysis consisted of 2.9 million total students enrolled in community colleges, for-profit colleges, and nonselective four-year colleges in 2012. The average tuition price paid among these students was \$5,515, and the average federal loan amount borrowed was slightly higher at \$5,940. Next, I examine each policy in turn.

6.1.1 Free community college

Under the counterfactual in which every students can access community colleges for free, for-profit and nonselective four-year colleges will set a post-policy equilibrium tuition that satisfies their first order conditions, taking the tuition of other higher education institutions as given (with the price at community colleges set to zero). Formally, I assume this policy ensures that the price of student i when attending college j is given by

$$p_{ij} = (1 - comm_j)p_j;$$

where $comm_j$ is an indicator for whether or not institution j is a community college.

Panel B of Table 6 presents changes in these quantities due to the introduction of free community college; the first row examines that the average total tuition paid by students, not including grants and loans. In aggregate, students would pay 54 percent less in tuition after the introduction of free community college. At the same time, students that remain

[18] While this assumption may appear unreasonable given recent concerns about inadequate infrastructure at some community colleges, we could reasonably expect that any federal legislation to introduce free community college would be accompanied by a strategy to address these capacity issues.

Table 6: *Counterfactual results for equilibrium e ects*

	Total	Community College	For-pro t College

At first glance, the increase in for-profit and 4-year nonprofit tuition may be surprising given the negative shock to demand. However, this can be explained by *which* students are leaving those institutions.

Next, I examine changes to enrollment; the model suggests that enrollment would increase significantly, by 26 percent. Furthermore there would be an almost 47 percent increase at community colleges, with decreases of 18 percent and 21 percent at for-profit and nonselective four-year colleges, respectively. This implies that the policy would result in 963,520 more students enrolled at community colleges, or 1,927 additional students per college. Furthermore, 89,974 less students would enroll in for-profit colleges, or 165 per college, and 92,889 less students would enroll in nonselective nonprofits, or 761 per college. The next row of Panel B displays substitution patterns caused by the introduction of free community college, as measured by the percent of students within each sector to switch to community college because of the policy. In particular, 16 percent of students that would choose to attend a for-profit college without the policy would substitute to a community college. Likewise, 19 percent of students that would choose to attend a nonselective four-year university would switch to a community college.

The next three rows illustrate why tuition at for-profit and nonselective four-year colleges increase in the post-policy equilibrium. Specifically, they display the same substitution metric broken down by income group. There is a clear, negative relationship between income and substitution to community colleges; 24 percent of low-income students (defined by income below $25,000) who would choose to attend a for-profit college absent the policy would switch to a community college, while only 6.5 percent of high-income students (defined by income above $75,000) would do the same. This implies that low-income students, who tend to be more price sensitive, are more likely to change their higher education decision toward a community college. Thus, a for-profit college's price elasticity will decrease at the margin; demand for the marginal customer will be more inelastic, which will incentivize an increase in tuition. The same intuition applies for nonselective four-year colleges, with 32 percent of low income students and 7.5 percent of high income students switching to community colleges when it is free.

As a result, the increase in community college enrollment would not only come from increased access, but also inter-sector substitution. The last two rows of Panel B display the percent of the enrollment change coming from entry or exit from higher education. The model suggests enrollment at community colleges increased by 40 percent due to effects on the extensive margin (students who would have not attended higher education if it were not free). In other words, 83 percent (39:7%=47:7%) of the community college enrollment increase can be attributed to the entry of new students. In addition, because of the equilibrium changes

Because of the smaller price effects, substitution to community college is driving a larger proportion of the enrollment drop at for-profit and nonselective four-year colleges: 3.0 percent of students who would have enrolled in a for-profit college, and 5.4 percent of students who would have enrolled in a nonselective four-year college, switched to a community college due to the last dollar program. As a result, the increase in community college enrollment can be attributed to the entry of students who would have otherwise not attended college, with 88 percent of the enrollment increase coming from new entrants. For-profit colleges would

Table 7: *Counterfactual results for welfare*

	IPEDS	NPSAS	
	Mean	Mean	Median
A. Free community college			
Average across all potential students	$333.53	-	-
Average for enrolled students	$710.39	$497.79	$274.36
By income group:			
Income < $25k	$407.27	$240.48	$131.21
$25k Income < $75k	$1,046.04	$708.41	$461.83
Income $75k	$699.08	$589.34	$307.78
B. Last dollar program			
Average across all potential students	$156.09	-	-
Average for enrolled students	$271.39	$198.63	$2.30
By income group:			
Income < $25k	$23.11	$8.17	$0.37
$25k Income < $75k	$285.04	$184.93	$2.46
Income $75k	$734.94	$629.42	$364.09
C. Need-based program			
Average across all potential students	$55.71	-	-
Average for enrolled students	$132.53	$63.55	$-0.60
By income group:			
Income < $25k	$408.51	$243.60	$133.47
$25k Income < $75k	$-46.03	$-47.87	$-21.75
Income $75k	$-87.06	$-77.46	$-36.04

NOTE: Estimates for the IPEDS sample calculates the weighted average of market-level average compensating variations. The NPSAS sample calculates the mean and median compensating variation for the random sample of students.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall 2011; and 2011-12 National Postsecondary Student Aid Study (NPSAS:12).

of students within each sector. Overall, a need-based free community college program would be slightly more successful at increasing access to higher education compared to last dollar programs, with overall increases in enrollment due to new entry of 12.5 percent. The cost of a federal need-based program would be $3.9 billion.

6.2 Consumer welfare

I use compensating variation to measure the changes in consumer welfare due to the introduction of free community college. Speci cally, I examine the change in students' income required to leave them indi erent between being o ered free community college and having to pay in full, as in the status quo. This encompasses three aspects of the policy: (1) the decrease in sticker price at community colleges, (2) the equilibrium response from for-profit and nonselective 4-year alternatives, and (3) the change in the burden faced from student loan debt. Panel A of Table 7 summarizes the change to consumer welfare from free community college using both the IPEDS sample and the NPSAS sample. The first column displays the average compensating variation using the IPEDS sample, with the first row displaying the average across all potential students.[21] The model suggests an average compensating variation of $334, meaning that it would require about $334 to leave the average potential student indifferent between having and not having free access community college.

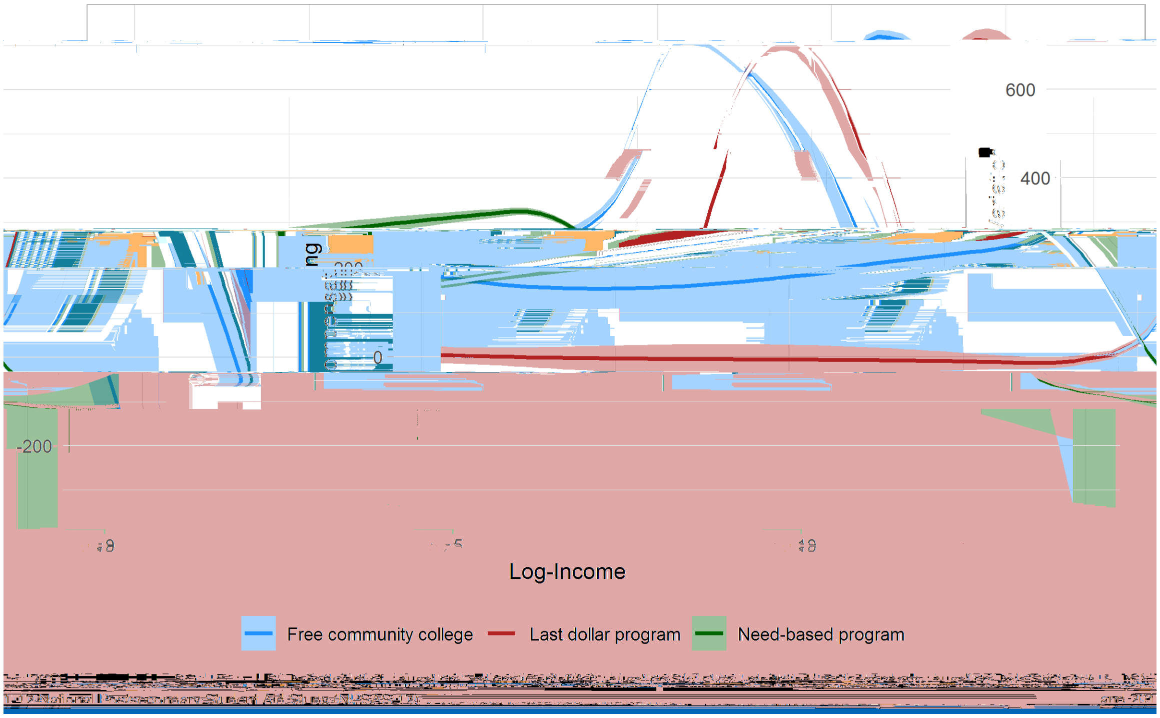
Among students who chose to attend higher education without the policy, the average compensating variation is $710 in the IPEDS sample. For the NPSAS sample, compensating variation can be calculated for each individual student, yielding a distribution. The mean compensating variation from this sample is lower than the IPEDS sample at $498, with a median of $274. By income, both the IPEDS and NPSAS samples both suggest that low income students have the lowest average compensating variation, while middle income students have the highest. The reason for the disparity by income is due to the fact that low income students are the most likely to receive other forms of federal financial aid. The model suggests that a reduction in tuition should result in a reduction in student loan borrowing, which is more prevalent among low-income students. As a result, the compensating variation for low-income student more prominently reflects the dollar value students would pay to increase (discounted) consumption tomorrow. At the same time, middle-income students are less likely to borrow student loans, and thus are able to directly benefit from the policy today. For high-income students, community college is already affordable in the status quo, resulting in a compensating variation between low- and middle-income students.

Compensating variation for last dollar programs is displayed in Panel B of Table 7, showing that students are less well-off compared to a fully-free community college scheme, with the average across all potential students of $156, and between $2 and $271 for students who are currently enrolled without the program. Consistent with the intuition of critics, last dollar programs also largely benefit higher-income students, and result in almost negligible benefits in terms of compensating variation for low-income students. This suggests that last dollar programs, while a more affordable method for financing free community college, will largely ignore those with the most need for financial aid, since it provides little to no support for recipients of need-based grant aid, such as Pell Grants.

Finally, Panel C of Table 7 shows that the overall welfare benefit of need-based programs in terms of compensating variation is low relative to a fully free community college program.

[21] Note that the average across all potential students can only be calculated using the IPEDS sample, since the NPSAS sample is restricted to those who chose a higher education option.

Figure 2: *Compensating variation by income for each free community college program.*



However, low-income students are willing to pay as much for this program, since they are e ectively receiving the same amount of aid. On the other hand, middle- and high-income students are worse o , and actually harmed, under this policy{they face higher prices at for-pro t and nonselective 4-year colleges, with no assistance at community colleges.

To visualize these e ects by income, Figure 2 presents the nonparametric regression of log-income on compensating variation from the NPSAS sample for each free community college program. A completely free community college program produces moderate welfare improvements up until income is about $10,000. It then begins to increase as students are becoming less reliant on student loans, and starts to decline as higher income students face diminishing marginal utility. For last dollar programs, compensating variation follows a similar pattern, but is mean zero for lower-income students and the bene ts are shifted

Table 8: *Counterfactual results for outcomes*

	Free comm. college	Last dollar program	Need-based program
A. All degree completions			
4 years after enrollment	19.40%	10.58%	2.97%
6 years after enrollment	21.23%	11.34%	3.43%
8 years after enrollment	21.29%	10.81%	4.38%
B. 4-year degree completions			
4 years after enrollment	4.16%	6.19%	-6.00%
6 years after enrollment	16.15%	9.44%	1.44%
8 years after enrollment	19.15%	9.99%	3.58%

NOTE: All degree completions consider the percent increase in either associate or bachelor degrees due to each policy. Four-year degree completions consider the percent increase in bachelor degrees due to each policy.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall 2011; 2011-12 National Postsecondary Student Aid Study (NPSAS:12); and College Scorecard, Fall 1996-2017.

will result in a net negative e ect on outcomes. In this subsection, I examine how the composition change of enrollment across institutions a ects two sets higher education completion outcomes: (1) the completion of *any* degree four, six, and eight years after enrollment, including those that transferred to other institutions, and (2) the completion of *a 4-year* degree four, six, and eight years after enrollment, including those that transferred to other institutions. These outcome measures are o ered through the U.S. Department of Education's online cost and value comparison tool, College Scorecard.

To do this, I run an institution-level regression of an outcome measure $outcome_{jt}$ for institution i in year t on average student characteristics d_{jt} and institution characteristics X_{it}, and include institution and year xed e ects:

$$outcome_{jt} = \ _j d_{jt} + \ X_{it} + \ _j + \ _t + "_{jt} : \quad (14)$$

where $_j$ is the coe cient on student characteristics that may vary by features of college j, e.g., its higher education sector. Appendix Table A.3 presents the coe cient estimates of $_j$ from various models 1(.)-3a1(mo)TJ/F32 7.9701 Tf 8.294 -2.823 Td [(j)]TJ/F15 11.9552 Tf 8.769 2.821

degree completions would increase by 20 to 22 percent across all three timeframes. This corresponds to about 225 thousand more degree completions. Last dollar programs would cause total completions to increase by half the amount at approximately 11 percent, or about 125 thousand more degree completions. Finally, need-based programs would produce the smallest percent increase, at between 3 and 4 percent, or 40 thousand degree completions.

To explain these results, consider two countervailing e ects on degree completions: First, free community college programs induce entry into higher education, meaning there is a larger base of students who can complete a degree. Mountjoy (2019) refers to this as the democratization e ect. Second, it changes completion rates through two mechanisms: (1) demographic shifts based on which students the policy incentivizes, and (2) substitution between institutions that di er in quality, referred to as the diversion e ect in Mountjoy (2019

7 Conclusion

While many state governments have recently adopted free community college programs, there has been much debate over its effectiveness and implementation. This paper compares three forms of free community college in terms of access to higher education, consumer welfare, and degree completions. I find that a fully free community college scheme does well across all measures, significantly increasing access and completions in aggregate. Furthermore, it

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A Estimation Details

In this appendix section, I provide additional details on estimation that were omitted from the main text.

A.1 Maximum likelihood

In the individual-level NPSAS data, three outcome quantities are observed: Define d_i as the institution chosen by student i, L_i^f as the observed amount of federal loans borrowed by student i, and L_i^p as the observed amount borrowed of private loans. The probability of observing the data for individual i, conditional on the parameters , is given by:

$$P(d_i; L_i^f; L_i^p) = P(d_i) P(L_i^f; L_i^p | d_i):$$

The log-likelihood function is then given by:

$$\log L(d_i; L_i^f; L_i^p; \ ) = \sum_i \log P(d_i) + \log P(L_i^f; L_i^p | d_i);$$

where $P(d_i)$ is the probability that student i selects college d_i, and $P(L_i^f; L_i^p | d_i)$ is the probability of observing student i borrow L_i^f and L_i^p in federal and private loans, respectively, conditional on student i choosing to attend college d_i. Estimation is done in two steps: The first step maximizes the partial likelihood of the observed loan amounts; the log-likelihood is given by

$$\log L_1 = \sum_i \log P_{1}(L_i^f; L_i^p | d_i);$$

where $_1 = (_f; _f; _p; _p)$. Given the estimates of the loan parameters, accrued interest and counterfactual loan amounts can be calculated. Using these quantities, the second step maximizes the partial likelihood of observed college choices; the log-likelihood is given by:

$$\log L_2 = \sum_i \log P_{2}(d_i);$$

where $_2 = (; \ ; \ )$. I discuss details of each step in turn.

A.2 Step 1: Simulated maximum likelihood for loan choice

The main text describes a partial likelihood that depends on cases, such that the probability of observing case k is given by P_{ik}. In this appendix subsection, I present the formulations of P_{ik} for each case in terms of the observables and parameters. As a reminder, the latent variables for federal and private selects college

as the 614(l)-265064 Td3.0 Td [( )-6(:)]TJ/F56 11.9553 -1.793 Tdp[(i)]TJ/F15 11.95527.11 12.32 4

such that $^{f}_{i}$ = exp(d^{T} ^{f} + $_{f}$) and $^{p}_{i}$ = $^{f}_{i}$ exp(d^{T} ^{p}+ $_{p}$ ^{p}). The random variables and ^{p} both follow a standard normal distribution and are assumed to be independent. Finally, to simplify notation, let $\hbar_{ij}$ = p_{j} y_{i} g_{ij} .

Case 1: Student i does not borrow any money from either federal or private sources. The probability of this case can be written as:

$$P_1 = P(\ ^{f} < \ ^{p})P(\tilde{\ }^{f} \ 0 | \ ^{f} < \ ^{p}) + P(\ ^{f} \ \ ^{p})P(\tilde{\ }^{p} \ 0 | \ ^{f} \ \ ^{p});$$

where

$$P(\ ^{f} \ \ ^{p}) = \ \frac{d^{T} \ ^{p}}{^{p}}$$

$$P(\grave{\ }^{f} \ 0 | \ ^{f} < \ ^{p}) = 1 \ \frac{\log(\ \hbar) \ d^{T} \ ^{f}}{^{f}}$$

$$P(\grave{\ }^{p} \ 0 | \ ^{f} \ \ ^{p}) = \ \int 1 \ \frac{\log(\ \hbar) \ d^{T}(\ ^{f} + \ ^{p}) \ \ _{p} \ ^{p}}{^{f}}$$

$$P \ \ ^{p} \ ^{p} \ \ \frac{d^{T} \ ^{p}}{^{p}} \ d \ ^{p}:$$

The last equation is an expectation under a truncated normal distribution, and can be simulated using standard numerical methods.

Case 2: Student i only borrows with federal loans. This case will only consist of students with private interest rates that exceed federal interest rates. The probability of this case can be written as:

$$P_2 = P(\ ^{f} < \ ^{p})P(\grave{\ }^{f} \ =$$

where

$$P(\grave{}^{p} < L \quad \grave{}^{f} j \; ^{f} < \; ^{p}) = \int \frac{\log(L \quad \hbar) \quad d^{T} \; ^{f}}{^{f}} \; \frac{\log(L \quad \hbar) \quad d^{T}(\; ^{f} + \; ^{p}) \quad _{p} \; ^{p}}{^{f}}$$

$$P \quad ^{p} \; ^{p} > \frac{d^{T} \; ^{p}}{^{p}} \quad d \; ^{p}$$

Case 4: Student i is borrowing exactly the federal loan maximum, and is taking also taking out private loans. In this case, if the amount of private loans the student borrows is z, then the latent variable $\grave{}^{p}$ will take the value $z + L$, since the amount of private loans a student borrows will already take into account the amount of federal loans the student has already to enrollment are required to identify the model. Following the demand estimation literature, I set predicted market share equal to observed market share, which is mathematically equivalent to setting demand equal to observed enrollment, given market size. While the main text writes the problem out as constrained maximum likelihood, such as the formulation suggested by Dube et al. (2012), in practice, I use the equivalent nested xed point procedure outlined by Berry et al. (1995). This is mainly because the nested xed point procedure was computationally faster for this application.

Following Berry et al. (1995), I rst identify the institution-speci c parameters $_j$ using the contraction mapping such that:

$$^{t+1} = \ ^{t} + \log share_j \quad \log s_j(\ ; \quad ; \ ^{t});$$

:ls

A.4 Additional estimation results

Table A.1: *Median implied elasticity estimates*

	Comm. Coll.	For-Profit	4-year Public	4-year Private
Community College	1.26	0.04	0.05	0.15
For-profit College	0.02	3.32	0.10	0.13
4-year Private Nonprofit	0.03	0.08	2.21	0.07
4-year Public Nonprofit	0.16	0.06	0.07	1.34

NOTE: The table presents the median own- and cross-price elasticities implied by the demand model.
SOURCE: U.S. Department of Education, National Center for Ed-

Table A.2: *Supply-side estimation results*

	Estimate	Std. Err.
Profit weights		
Community college	0.044	0.040
Private 4-year nonprofit	1.000	0.000
Public 4-year nonprofit	0.285	0.180
Net marginal cost parameters		
Alabama	-925.89	934.04
Arizona	-1466.28	851.41
California	-2743.36	577.99
Connecticut	-1267.29	1920.20
Florida	-1450.50	869.65
Georgia	-863.08	644.76

Table A.3: *Results for outcome regression*

	All degree completions			4-year degree completions		
	4 years	6 years	8 years	4 years	6 years	8 years
Family income (log)	0.193	0.197	0.173	0.079	0.096	0.094
	(0.007)	(0.008)	(0.008)	(0.005)	(0.005)	(0.006)
Enrollment (log)	0.002	0.006	0.006	0.0005	0.002	0.004
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Age	0.010	0.006	0.002	0.006	0.001	0.0005
	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)
Female	0.059	0.061	0.043	0.174	0.119	0.095
	(0.025)	(0.027)	(0.030)	(0.018)	(0.019)	(0.021)
Dependent	0.101	0.098	0.100	0.076	0.037	0.043
	(0.030)	(0.030)	(0.032)	(0.022)	[illegible]	(0.022)
Minority	0.010	0.027	0.039	0.005	0.001	0.001
	(0.012)	(0.013)	(0.014)	(0.009)	(0.009)	(0.010)