Explain why higher education is considered to be a ‘merit good’ and why it will therefore generally be under-consumed in the free market.

Explain why providing student loans could be considered a ‘supply side policy’.

Explain 3 advantages and 3 disadvantages of a government funding all university education.

Explain what is meant by government failure and explain how deals such as the one mentioned are prone to have some government failure.

Explain what it means for governments to ‘sell the family silver’ when selling off public sector assets.

Explain what is meant by ‘Discounting the Future’ and explain why uncertainty over interest rates may affect decisions to borrow.

Calculate the value of the average student loan.

Calculate how much a graduate who is paid £20,000 a year would pay back on their loan in one year.

Explain 3 ways the funds raised from the sale could be used.

Find out the UK CPI and RPI rates and the current Bank of England base rate.

The British government plans to sell off part of the student loan book

Gordon Brown will inevitably be remembered as the man who didn’t abolish boom and bust, and as the man who sold off British gold at historically low rates. Such sales of government assets are always risky and can create momentous political problems. Jo Johnson, the UK Universities minister, will be taking this risk as he looks to sell parts of student debt to raise government revenue. Britain is the first country to sell income-contingent student loans to private investors.

The proposed sale has been a decade in the making. In 2008 the Labour government passed the Sale of Student Loans Act, which laid the legal groundwork. The deal’s complexity is the main reason for the delay. It would involve around £4bn ($5bn) of loans made to half a million students, who began making repayments between 2002 and 2006. There is little certainty about the repayment schedule: graduates pay money back only when they cross an earnings threshold, currently £17,495. They pay 9% of their earnings above the level; interest is the lower of inflation or the base rate plus one percentage point. All this makes it hard to work out what the loans are worth.

The deal equates to around 10% of the total student debt. If this is successful, it is expected that more debt will be sold in the future. The UK government will hope to quickly sell future debt to avoid excessive risk.

Opposition to the sale has been building for some time. In 2014 the National Union of Students warned the government against selling the debt to “some unscrupulous, bowler hatted, fat-cat profiteers.” More recently, critics have worried that graduates may lose out if the purchaser of the debt decided to tinker with the terms of their loans. It is unlikely to be a popular buy for investors, however. Due to complicated regulations surrounding the debt, it is unlikely that purchasers will be able to claim much back from graduates who do not repay their loans.

The government is simply swapping a future flow of income for cash today, and will probably pay to do so.
1. **Explain why higher education is considered to be a ‘merit good’ and why it will therefore generally be under-consumed in the free market**

   People underestimate the long term benefits of education and ignore the positive externalities of being educated. The marginal private benefit is less than the marginal social benefit, therefore consumption is too low.

2. **Explain why providing student loans could be considered a ‘supply side policy’**

   A supply side policy is an attempt to improve an economy's productive capacity by improving quality or quantity of factors of production. This policy will increase the number of people going to university and getting educated, therefore improving the quality of labour, which will increase LRAS.

3. **Explain 3 advantages and 3 disadvantages of a government funding all university education**

   **Advantages**
   - More students go to university and earn higher wages in future
   - Lower budget deficit in future, higher tax payments and less spent on benefits
   - More education can drive greater innovation
   - Increases LRAS therefore leads to more growth
   - Positive multiplier effect

   **Disadvantages**
   - Very expensive—taxes will rise or more debt!
   - ‘Too many’ people go to university, allocative inefficiency. Could create problems of ‘underemployment’
   - Lower quality of education as under-funding may occur

4. **Calculate the value of the average student loan**

   \[ \frac{4,000,000,000}{500,000} = £8000 \]

5. **Calculate how much a graduate who is paid £20,000 a year would pay back on their loan in one year**

   \[ (20,000 - 17,495) \times 0.09 = £228.09 \]

6. **Find out the UK CPI and RPI rates and the current Bank of England base rate**

   - UK (as of Feb 2017) CPI=1.8% RPI=2.6% Base Rate=0.25%

7. **Explain what is meant by ‘Discounting the Future’ and explain why uncertainty over interest rates may affect decisions to borrow**

   To discount the future is to consider the effects inflation and interest rates may have upon payments over the future. If unsure about future interest rates then agents do not know how valuable their assets will be in the future.

8. **Explain what it means for governments to ‘sell the family silver’ when selling off public sector assets**

   When the government sells a publicly owned industry or asset, which generates a one-off boost to revenue.

9. **Explain 3 ways the funds raised from the sale could be used**

   - **Macro Uses:** Reduce taxes because government spending is funded via the sale instead
   - Increase government spending in other areas
   - Pay off some of the national debt

   - **Micro Uses:** Hypothecate the revenue into funds to increase access to higher education for the poor

10. **Explain what is meant by government failure and explain how deals such as the one mentioned are prone to have some government failure**

    Government failure occurs when attempted government intervention can fail to make an impact or actually worsen the allocation of resources / lead to a less efficient outcome. The following problems could occur in a deal such as the one mentioned:

    - Political Self Interest - Conservative policy of slimming down public sector and paying off deficit
    - Short termism - Accepting lump sum now instead of more valuable, long term payments
    - Bureaucracy - In such a large, complicated deal, the government are unlikely to have the full information and may be tied by regulation
    - Unintended consequences - selling off debt to private firms could let firms recall debt early or charge higher rates
    - Disincentivises students to go to higher education, worsening the market failure