

Adv. PSE I: Tutorial 03

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5 International Education as a Commitment Device

In class you discussed the model by Thum and Uebelmesser (2003). Here we will revisit some of the underlying concepts and intuitions of the model. Use the “model on one page” provided on the tutorial’s website.

- a) What strategy do the authors follow to solve the model?
- b) Identify equations that represent assumptions! State each assumption as an English sentence!
- c) Provide an intuition for the effect of each variable in the result obtained for stage 1!

6 Underprovision of International Education

In class you discussed the model by Poutvaara (2008). Here, we will only look at the first stage of the model and revisit the underlying concepts and intuitions. Use the “model on one page” provided on the tutorial’s website.

- a) Identify the equations that represent the assumptions regarding the following elements of the model. State each assumption as an English sentence (or two).
 - 1) Human capital of skilled and unskilled individuals
 - 2) Skilled and unskilled human capital stocks of the economy
 - 3) Production technology
 - 4) Maximization problem of a regional government
 - 5) Maximization problem of the social planner
- b) Compare the solution obtained for the regional government with the solution obtained for the the social planner (i.e. the federal government). Which factor is missing? Provide an intuitive interpretation for this difference!
- c) Under which condition will the regional government implement a sub-optimal solution? Identify the equation that represents this condition!
- d) Provide an intuition for the effect of each variable in the sub-optimality condition!

References

- Poutvaara, Panu (2008). “Public and Private Education in an Integrated Europe: Studying to Migrate and Teaching to Stay?” en. In: *Scandinavian Journal of Economics* 110.3 (2008), 591–608.
- Thum, Claudio and Silke Uebelmesser (2003). “Mobility and the Role of Education as a Commitment Device”. In: *International Tax and Public Finance* 10.5 (2003), pp. 549–564.

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