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Differential Pricing

By John V. Lombardi July 29, 2007 9:26 am

The **New York Times noticed in its edition of July 29, 2007** the introduction of differential tuition by field into some public universities. While the notion of explicitly charging more for business or engineering majors than for history or English is hardly new, the desperate search for additional revenue to sustain university operations has led to more explicit pricing strategies such as this one. Partly this is because the consumers, the students and their parents, can be convinced that the extra cost of a business or engineering degree will be recovered after graduation, and the extra quality the premium price buys will be reflected in the marketability of the graduates. Sometimes these strategies reflect state rules that may permit additional specific fees but not general tuition increases. All of this reflects the continued shift of parts of public higher education into the fee for services rather than the public service business.

However, even though this may appear dramatic and ominous, in fact, most large universities, as well as many small colleges, have always used an invisible form of differential pricing. When a campus charges the same fee for all majors, and some majors cost more to produce than others, the participants in the low cost majors are subsidizing the participants in the high cost majors. Similarly, when the tuition and fees for all students are uniform, those students who take small classes taught by distinguished professors, participate in honors programs, and otherwise enjoy high cost instructional environments are subsidized by the tuition and fees of those students who take ordinary large classes taught by adjunct professors, who do not qualify for honors programs, and who move through the university without requiring special services.

The rationale for these cross subsidies is that the standardized tuition and fee pricing permits students to make choices about their academic careers without consideration of differential costs. This charming notion comes of course from the experience of small private liberal arts colleges where the academic environment is limited, most classes in all fields are small, and the institution may not support the highest cost programs available at major research universities. Also, of course, some elite private colleges have the high tuition and endowment income to support subsidies of whatever kind to produce whatever instructional environment seems appropriate to them.

As public higher education continues to struggle with the tremendous pressure to deliver the highest level of quality to its students (and their parents) and the lowest cost to their political sponsors (legislatures), we can expect to continue to see various forms of pricing designed to resolve the conflict between quality and cost. In the end, the most successful public institutions will probably find a way to use all the possible techniques: raise general tuition and fees, increase financial aid for the needy, create special fees for special programs, and raise external dollars to support quality enhancements. The critical challenge for all quality public institution is acquiring the revenue required to purchase the quality demanded by its constituencies.