



Labour Market Matters

Special points of interest:

- Increased student loan maximums found to have minimal effect on university enrolments.
- Merit-aid found to affect the type rather than the number of academically strong students a university attracts.

“[I]ncreasing nonrepayable assistance such as grants can lead to increases in enrolments; loans appear to only increase the probability of youth living away from their parents’ house while studying”



Christine Neill
(Wilfrid Laurier University)

Volume 2, Issue 8

August 2010

Can Increasing Student Loan Limits Increase University Enrolments of Financially Constrained Students?

Attaining a university education is an important goal for many young people. Many students rely on student loans in order to finance their educational choices. As the costs of university educations trend upwards, some credit constrained individuals may find that their student loans may not be sufficient to cover the entire costs of obtaining a university education. A CLSRN study entitled, “**The Effect of Student Loan Limits on University Enrolments**” ([CLSRN Working Paper no. 4](#)) by Christine Neill (Wilfrid Laurier University) examines how increases in maximum student loan limits affect enrolment rates of 18-23 year olds.

Canada’s student loans and grants system is governed by combined provincial/federal jurisdiction, so there are policy differences between provinces. Neill uses the differences between the Canada Student Loan Program (CSLP) and Quebec’s Aide Financiere aux Etude (AFE) to explore how differences in maximum amounts of assistance available through Canada’s student loan programs (split into repayable and non-repayable components) affect university enrolment rates. In all provinces, governments provide loans in an amount equal to assessed need less available resources, up to a maximum

dollar borrowing limit. There have been substantial differences in these maximum borrowing limits across provinces over time.

Outside Quebec, the basic architecture of the student loan system is set by the CSLP. Currently, under the CSLP, the maximum assistance amount is \$350 a week. Although the details depend on the province, a student with an assessed need of \$400 per week will therefore receive a combination of loans and grants of only \$350 per week, creating a financial shortfall. Federal borrowing limits under the CSLP have been raised roughly once a decade since the early 1980s. Increases in the CSLP loan maximums, have been followed closely by increases in the average value of loans distributed under the CSLP – meaning that most loan-takers are borrowing the maximum amount available under the CSLP.

In the nine provinces where the CSLP operates, then, tuition rose steadily in recent years while the maximum student loan level remained constant between 1994 and 2004. In Quebec, by contrast, tuition fees remained stable while assistance limits increased to keep pace with overall inflation. This has led to a divergence in the resources available to students in the CSLP program compared to students in Quebec. In Quebec, the opposite is true: tuition has remained stable but maximum assistance levels have risen with

inflation. The AFE program also provides a greater proportion of all financial aid to students as non-repayable assistance. Neill examines the response of enrolments by province to changes in maximum assistance amounts available to students from a particular province over time.

She finds that a \$1000 increase in non-repayable assistance (grants) provided under the student loan program is estimated to increase enrolment rates by 1 percentage point. As increases in maximum available grant funding affect only those students whose family incomes are relatively low (roughly 25% of university students), that 1 percentage point increase in enrolments likely represents a 2 to 4 percentage point increase in enrolments among the targeted population. Increases in the maximum limit of repayable assistance (loans) does not appear to have any effect on enrolment level suggesting that enrolment levels react more strongly to changes in the effective cost of schooling than to the availability of more credit. While Neill finds evidence that increasing nonrepayable assistance such as grants can lead to increases in enrolments; loans appear to only increase the probability of youth living away from their parents’ house while studying.



With the cost of university educations rising, can guaranteed merit-aid help universities compete for a greater share of the strongest students?

Image: [Aaron Murphy](#)

“‘Sticker price’ strategies, such as merit aid, may appeal more strongly to students from less affluent backgrounds. Other strategies such (such as small class size, quality of facilities etc.) generally appeal more to students from more affluent backgrounds.”



Leslie Robb
(McMaster University)

Does guaranteed merit-aid attract more academically strong students to a university?

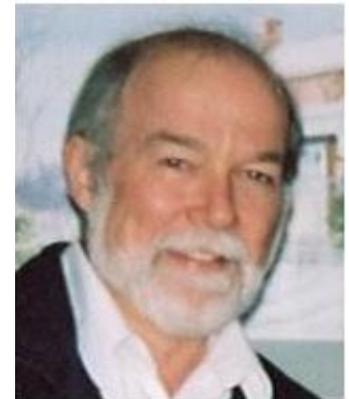
Universities compete for academically strong students for a variety of reasons beyond general institutional prestige. Academically strong students are more likely to enrol in honours programs which can bring higher subsidies from the government. Strong students are also more likely to persist in their programs thereby lowering turnover costs. They are generally more pleasant to teach, help to teach weaker students, appeal to donors, and ultimately become more influential and affluent alumni.

Steady increases in the real cost of tuition over the past decade in Ontario universities, especially in professional programs such as Commerce and Engineering, have been accompanied by large increases in financial aid available to students often in the form of merit-based entry scholarships. Such aid is awarded solely on the basis of high school grades and is guaranteed to any student meeting the grade standard. In their study **“Merit-Aid and the Distribution of Entering Students Across Ontario Universities”** ([CLSRN Working Paper no. 57](#)) CLSRN Affiliates Martin Dooley, Abigail Payne, and Leslie Robb (all of McMaster University) examine data on entering students in Ontario from 1994 through 2005, to examine what effect merit-based

financial awards have on a university’s share of academically strong registrants. Their study covers entry into 19 Ontario universities.

The proportion of university budgets devoted to scholarships and bursaries increased from 3.1% on average in 1994 to 5.2% in 1999 and to 10.7% in 2005. The number of universities that offer merit-based entry awards for students with a grade point average (GPA) of 80 to 90 rose from 2 in 1994 to 13 in 2005 and the number with an award for students with a GPA of 90 to 100 rose from 10 to 16.

Universities compete for academically strong students in different ways. Tuition, fees and guaranteed merit aid are all forms of what the researchers call “sticker price” competition. Other forms of competition include the quality and variety of academic programs, guaranteed residency space, extracurricular activities, recreational facilities, etc. Universities differ in the number and type of strategies they employ to attract the best students. “Sticker price” strategies, such as merit aid, may appeal more strongly to students from less affluent backgrounds. Other strategies such (such as small class size, quality of facilities etc.) generally appeal more to students from more affluent



Martin Dooley
(McMaster University)

backgrounds.

Overall, the study found that merit scholarships only have a small effect on the ability of a university to increase its overall share of academically strong entrants. However, the study finds that merit aid has a substantial impact on the type of academically strong students that a university can attract. High merit aid is associated with an increase in the proportion of strong students from low-income areas relative to the proportion from high-income areas. This finding is consistent with the hypothesis that a low sticker price is more attractive to students from less affluent backgrounds while students from more affluent backgrounds are influenced by other characteristics such as high quality services.

Endnotes

Labour Market Matters is a publication of the Canadian Labour Market and Skills Researcher Network (CLSRN). The CLSRN is supported by Human Resources and Skills Development Canada (HRSDC) and the Social Science and Humanities Research Council of Canada (SSHRC). Opinions expressed in this publication do not necessarily reflect the views of HRSDC or the SSHRC.

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