omics of Higher Education in the 21st Century

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The Economics of Higher Education in the 21st Century

Part I

Introduction to Part I

In the first part of this two-part work, the economics of higher education are explained. It is made clear how a university's business model differs from that of a company that has to compete on the open market, and on this basis it is explained:

(i) Why universities are in no way threatened by low retention rates and graduation rates;

(ii) Why universities cannot significantly improve or otherwise alter the quality of their educational services without imperiling their very existences;

(iii) Why universities do not have to improve the quality of their educational services;

(iv) Why universities couldn't improve the quality of their services even if they wanted to;

(v) Why the fact that many universities have low retention- and graduation-rates does not a represent a business opportunity, or opportunity of any other kind, for anyone, whether inside or outside of academia; and

(vi) Why principles of Knowledge Management (KM) that are so useful when it comes to helping businesses that compete on the open market are completely useless, and indeed of negative utility, when it comes to helping universities solve their problems.

In the second part of this work, it is explained how to construct an online university that is both lucrative and provides instruction that is faster, better, cheaper, and more useful than the instruction provided by any existing (or possible) brick-and-mortar university. It is also explained how the principles of KM can be used to optimize such a university, once it is up and running.

Retention-rates and Graduation-rates: Introductory Remarks

A university’s retention rate is the percentage of students who stay after the first year. A university’s graduation rate is the percentage of students who graduate within six years of enrollment. These numbers never coincide, but they track each other. Universities with high retention rates have high graduation rates, and universities with low retention rates have low graduation rates.

Retention rates are necessarily at least as high as graduation rates and in practice are always higher. Also, even if a university has a graduation rate of 0%, as is the case with a number of institutions, it doesn't follow that nobody graduates from it, only that nobody does so within six years of enrollment.

Do Graduation- and Retention-rates Matter?

From a financial perspective, a university has relatively cogent reasons to want a high retention rate: when a student doesn’t enroll for a second year, that university loses business, and it doesn’t when he does. A university has less strong reasons to want a high graduation rate. If a student comes back year after year and never graduates, the university makes more money than it does if he graduates.

All of this said, universities with low graduation *and* retention rates almost always tend to stay in business. Great Basin College in Nevada has a retention rate of 4% and a graduation rate of 0%, but it is not in financial trouble.