THE EFFECT OF TUITION INCREASES ON MARKETING STUDENT DECISIONS

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Abstract

Over the past decade, the price index for college tuition grew by nearly 80%, a rate nearly twice as fast as the overall consumer price index during the same period (Kurtzleben, 2013). College graduates in the class of 2014 are the most indebted ever, with an average student-loan debt of $33,000, and over 70% of bachelor’s degree recipients are leaving school in debt as compared to less than 50% just 20 years ago (Izzo, 2014). There have been strong student protests in response to announced increases, including the recent example of protests in the University of California system (Murphy & Neysa Alund, 2014).

Much of this increase in tuition costs has been because schools have had to offset reduced state support of their universities (Hemelt & Marcotte, 2011), and declining enrollments caused by years of depressed family incomes and uncertain job prospects (Martin, 2013). Business schools, however, have shown steady increases in the number of bachelor’s degrees conferred for the past decade, with nearly 32% growth during this time (National Center for Education Statistics, 2013, Table 322.10) in part, possibly, because students associate better job prospects with business degrees.

While student satisfaction, influencers on the choice of being a marketing major, and strategies for recruiting students into marketing majors have received attention in the marketing education literature (Danko & Schaninger, 1988; Hugstad, 1997; LaBarbera & Simonoff, 1999; Schmidt, Debevec, & Comm, 1987), student response to tuition increases has not. It comes as no surprise that tuition increases reduce persistence rates among graduate students (Andrieu & St. John, 1993) and probably undergraduates as well. Given that enrollment is a key factor in the budget made available to marketing departments, it is important for department chairs and faculty to develop effective strategies for addressing tuition increases with students.

The present research examines one stratagem for influencing student response to tuition increases. It explores how the framing of tuition increases may affect the decisions students make regarding school choice, financing, and accommodating tuition increases by adjusting their other expenditures.

Framing Tuition Increases: Topical and Comprehensive Mental Accounts

There are two phases in a typical decision problem: a phase of framing and editing, followed by a phase of evaluation (Kahneman and Tversky, 1979). The framing and editing phase consists of a preliminary analysis of the decision problem, which frames what actions or choices can be made, the related contingencies, and possible outcomes. This framing is controlled by the manner in which the problem or decision is presented, as well as by the various norms, habits, and expectations of the person making the decision. After this initial framing phase, the various options are then evaluated, and the option with the highest perceived value is selected.

When deciding between variously framed outcomes, decision makers use “mental accounts” in order to aid in the evaluation of each choice. Tversky and Kahneman (1981, p. 456) define a mental account as “an outcome frame which specifies (i) the set of elementary outcomes that are evaluated jointly and the manner in which they are combined and (ii) a reference outcome that is considered neutral or normal,” with the reference point typically set at the status quo. People use such mental accounts to keep track of where their money is going and to keep
spending under control (see Thaler, 1999 for a detailed review of mental accounting research). In particular, Kahneman and Tversky (1984) have proposed that these mental accounts can be either minimal, topical, or comprehensive accounts. Minimal accounts include only the differences between options and disregard the features they share. Topical accounts relate the consequences of possible choices to a reference level determined by the context of the decision. Comprehensive accounts incorporate all other factors including current wealth, projected future earnings, and possible outcomes of other investments. Thaler (1999) suggests that in general, the way a decision is framed should not alter choices if the decision maker is using a comprehensive, wealth-based analysis. However, real world choices are often altered depending on how decisions are framed because people make decisions piecemeal, and thus are influenced by the specific context of the choice.

In the present research we framed tuition increases in several ways in order to see how these differentially influenced students’ choices and affected their responses concerning choice of school, funding source, and non-school related expenditures.

Our prediction was that generalized increases in tuition would lead students to use comprehensive mental accounting and, thus, lead to decisions that more negatively impact enrollment decisions. However, if tuition increases were framed in a piecemeal manner, students may use topical mental accounting which would have a less negative impact on enrollment decisions. We tested these predictions in two experiments that provided evidence that various frames for tuition increases would indeed have differential effects on students’ decisions. Our results suggest that faculty and administration may be able to influence important student decisions through the framing of tuition increases.

References Available upon Request