

Earning Expectations of University Students: Evidence from English Business Schools

John Anchor and Martina Benešová

Part 1: Summary

This paper reports on the findings of a survey of students' expectations of their earnings after they have graduated. Three years of data are presented for Business School students at two English universities. First year and final year Bachelor students are surveyed in relation to two different scenarios – immediately after graduation and 10 years after graduation. There are a number of factors which appear to influence students' earnings expectations. Final year students have lower expectations compared with first year students. Female students expect lower earnings, 10 years after graduation, than male students - which reflects the situation in the labour market. Higher wage expectations are found to be correlated with the completion of a sandwich work placement and with expectations of the award of a First class honours degree.

Part 2: Outline

In today's knowledge economy, tertiary education has been seen as an economic necessity in developed countries. Higher education can bring significant benefits not only to society but to graduates as well. Previous research has shown that the average graduate may get an earnings premium of approximately £150,000 over their working life compared to a non graduate counterpart (O'Leary and Sloane, 2005). However, the financial returns to a Bachelor degree have been falling since the 1990s (Chevalier et al., 2004). Recent graduates may face difficult job prospects as graduate unemployment remains high and starting salaries have stagnated for the last three years (HECSU, 2012; High Fliers Research, 2012). Finally, tuition fees of up to £9000 became a reality for English students who entered university during the academic year 2012/2013.

Although a number of studies have attempted to calculate the so called graduate premium, only a few have investigated students' expectations about their future earnings. In our research, we surveyed the graduate salary expectations of current students. A questionnaire was distributed to Business school students at two English universities. The data were collected from first year Bachelor students at the beginning of the academic year and final year Bachelor students were surveyed towards the end of their course.

Students were asked about their wage expectations under two scenarios – immediately after graduation and ten years after graduation. First year students tend to have higher salary expectation which is in agreement with previous studies (Brunello et al., 2004; Jerrim, 2011). This can possibly be explained by the better labour market awareness of final year students. We found that a majority of final year students are applying for graduate jobs before they graduate. They are also more likely to have some work experience although around 45% of first year students in our sample had a part-time job during their studies.

Another factor which may influence wage expectations is gender because a gender pay gap exists in the labour market. Our data suggest that the starting salary expectations of female students are very similar to those of their male peers. However female students expect to earn lower salaries than

their male counterparts ten years after graduation. Our results indicate that gender can explain up to 5% of the variability in earnings expectations 10 years after graduation.

Earnings expectations could be influenced by students' ethnicity. Ethnic minority students are less likely to achieve a first class honours degree than their white British counterparts (Richardson, 2008). However we find that ethnic minority students expect to earn more, both immediately after graduation and 10 years later, compared to their white peers, which is in line with Speed (2007). Immediately after graduation white students expect to earn approximately £22,000, while ethnic minority students expect to earn £25,000. Ten years after graduation white students expect to earn £43,000 and ethnic minority students £47,000. Our data also show that Asian students are also more likely to be local and less willing to relocate for a graduate job. Nevertheless, low labour market mobility is apparent among white students too as most students surveyed were studying in their home region and were planning to stay in the region after graduation.

Students who undertake a work placement are more likely to be employed after graduation and their starting salaries tend to be higher (Papadatou, 2010). There are three possible explanations. Firstly, successful work placement can lead to a permanent job offer upon graduation. Secondly, students who complete sandwich courses have a better chance of obtaining a "good" degree (Mandilaras, 2004) which enhances their employability. Thirdly they may be more able in the first place. In our sample, students who had undertaken a work placement expect slightly higher starting salaries (£20,000 vs. £21,000) but the difference is more noticeable 10 years after graduation (£40,000 vs. £51,000).

Degree classification is important in England since many recruiters use a 2:1 classification as a minimum entry level. Better grades are also associated with higher starting salaries (Ramsey, 2008). A similar pattern was observed in our research. Students who expect to achieve a first class honours degree expect to earn approximately £1000 more per annum after graduation than students with an upper second but the difference is approximately £12000 10 years after graduation. However, it has to be noted that a good number of students have probably overestimated their final degree classification since approximately 90% of students anticipate obtaining a "good" degree. According to published data on actual attainment, for earlier cohorts of the students surveyed the figure is not likely to exceed 70 per cent.

The universities involved in this research are both post-1992 universities. One is situated in Yorkshire and the other one in the West Midlands. Students in the West Midlands have higher salary expectations for all scenarios compared to their counterparts in Yorkshire. As 75% of the students sampled plan to stay within their region after graduation, this can possibly be explained by higher average wages paid to workers in the West Midlands (Office for National Statistics, 2011).

Despite the difficult economic situation, students tend to be optimistic about their future prospects. More than 80% of students are expecting to be in a graduate job six months after graduation. In order to improve their chances in the labour market, recent Bachelor graduates are more likely to pursue a Master degree. Nevertheless, in our sample the number of students who intend to obtain a higher qualification in the short term could be counted on the fingers of one hand. Even though "over-education" is believed to be a problem in the UK (Barone and Ortiz, 2010), few students expect to be in a non-graduate job or to be unemployed.

References:

Barone, C. and Ortiz, L. (2010) *Overeducation among European University Graduates: A Comparative Analysis of its Incidence and the Importance of Higher Education Differentiation* [online]. Available at: <<http://sociodemo.upf.edu/papers/DEMOSOC33.pdf>> [Accessed 8 June 2011].

Brunello, G., Lucifora, C. and Winter-Ebmer, R. (2004) 'The wage expectations of European college students', *Journal of Human Resources*, Vol. 39 No. 4, pp. 1116-1142.

Chevalier, A., Harmon, C., Walker, I. And Zhu, Y. (2004) 'Does Education Raise Productivity, or Just Reflect it?', *Economic Journal*, Vol. 114 No. 499, pp. 499-517.

HECSU (2012) 'Futuretrack Stage 4: transitions into employment, further study and other outcomes' [online]. Available at: <http://www.hecsu.ac.uk/assets/assets/documents/Futuretrack_Stage_4_Final_report_6th_Nov_2012.pdf> [Accessed 10 June 2013].

High Fliers Research (2012) 'The Graduate Market in 2012: Annual review of graduate vacancies & starting salaries at Britain's leading employers'. [online]. Available at: <<http://www.highfliers.co.uk/download/GMReport12.pdf>> [Accessed 10 June 2013].

Jerrim, J. (2011) 'Do UK Higher Education Students Overestimate Their Starting Salary?', *Fiscal Studies*, Vol. 32 No. 4, pp. 483-509.

Mandilaras, A. (2004) 'Industrial Placement and Degree Performance: Evidence from a British Higher Institution', *International Review of Economics of Education*, Vol. 3 No. 1, pp. 39-51.

Office for National Statistics (2011) *2011 Annual Survey of Hours and Earnings* [online]. Available at: <http://www.ons.gov.uk/ons/dcp171778_241497.pdf> [Accessed 15 September 2012].

O'Leary, N.C. and Sloane, P.J. (2005) 'The Return to a University Education in Great Britain', *National Institute Economic Review*, No. 193, pp. 75-89.

Papadatou, A. (2010) 'Graduate Market Trends – Autumn 2010: Erasmus Student Work Placements', *Higher Education Careers Services Unit* [online]. Available at: <http://www.hecsu.ac.uk/assets/assets/documents/GMT_online_version_-_final.pdf> [Accessed 2 June 2011].

Ramsey, A. (2008) *Graduate Earnings: An Econometric Analysis of Returns, Inequality and Derivation across the UK*, Department for Employment and Learning [online]. Available at: <http://www.delni.gov.uk/graduate_earnings__summary_report_.pdf> [Accessed 20 November, 2012].

Richardson, J. T. E. (2008) 'The attainment of ethnic minority students in UK higher education', *Studies in Higher Education*, Vol. 33 No. 1, pp. 33-48.

Speed, L. (2007) *Job seeking behaviour of ethnic minority students* [online]. Available at: <http://www.northamptonshireobservatory.org.uk/docs/docJob_seeking_ethnic_minority_students%5B1%5D070410141102.pdf> [Accessed 16 September 2012].