The Case for Replacing Cost of Attendance With Median Cost of College

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# Table of Contents

**Executive Summary** ........................................................................................................... 3

**Introduction** .......................................................................................................................... 3

**Background on Cost of Attendance in the Current Financial Aid System** ................................. 3

**The Median Cost of College** .................................................................................................. 4

- Use an Enrollment-Weighted Median .................................................................................... 4
- Apply the Median Cost of College at the Program Level Rather Than the Institutional Level .................................................................................................................. 5

**Optional: Calculate Medians for Only Some Components of Cost of Attendance** ...................... 6

**The Benefits of Replacing Cost of Attendance with Median Cost of College** ............................ 6

- Median Cost of College Would Improve the Financial Aid Process ........................................ 6
- Better Protect Privacy ................................................................................................................ 6
- Provide More Consistent and Timely Financial Aid Information to Students ............................ 7

**Median Cost of College Would Enhance Competition Among Colleges** ............................... 7

- Improve Accountability of Colleges for Public Funding ............................................................. 7
- Encourage (Decentralized and Depoliticized) Cost Containment ............................................. 9
- Lower Prices at Some Colleges ................................................................................................. 9

**Reduce the Inflationary Effect of Aid on Tuition (Neutralize the Bennett Hypothesis)** ................. 10

**Incentivize Colleges to Measure and Improve Quality** ................................................................. 11

**Conclusion** ............................................................................................................................ 12

**References** ............................................................................................................................. 12
Executive Summary
The federal financial aid system for higher education can be improved by replacing the Cost of Attendance with the Median Cost of College. Cost of attendance is defined as the total cost of attending college and is determined by each college individually. The median cost of college is defined as the median value of the cost of attendance across colleges.

Under this new approach, colleges would continue to generate individual cost of attendance figures; however, when determining students’ aid eligibility, the government would use the median cost of college rather than the individual college’s cost of attendance.

Adopting the median cost of college would generate several benefits. These benefits include improving the financial aid application process; enhancing the competitive landscape among colleges, which would increase accountability, encourage cost containment, and lower prices at some colleges; reducing the inflationary effect of aid on tuition (neutralizing the Bennett hypothesis); and, finally, providing an incentive for colleges to measure and improve quality.

Introduction
Federal financial aid programs provide around $150 billion to college students each year (College Board, 9). Federal aid eligibility for college students is currently determined by the Cost of Attendance (COA), combined with financial information that students provide through the Free Application for Federal Student Aid (FAFSA).

This study attempts to demonstrate the pitfalls of using the cost of attendance in determining eligibility, and the benefits of using the median cost of college instead. The cost of attendance is an estimate of the total cost to attend a college, and it is determined separately by each college. The median cost of college is the median of the cost of attendance estimates among the colleges (optionally using an enrollment-weighted median and applied at the program level).

To make this case, we will introduce some background on the current financial aid system, including what goes into determining the official cost of attendance at colleges. Next, we will discuss how the median cost of college can be calculated, followed by our recommendations on how to improve this calculation. Finally, we will discuss the various benefits associated with replacing the cost of attendance with the median cost of college when determining financial aid eligibility.

Background on Cost of Attendance in the Current Financial Aid System
Cost of attendance plays a central role in the financial aid system. In order to determine student aid, the government first needs to know how much it costs to attend college. The current system allows each college to determine its own...
cost. Section 472 of the Higher Education Act (as amended) states that a college's cost of attendance can include (519):  

- Tuition and fees  
- Books and supplies (including computer purchase or rental)  
- Transportation  
- Room and board (with different amounts based on whether the student is living on campus, off campus, with parents, or on a military base)  
- Personal expenses  
- Child or other dependent care allowance (if the student has dependents)  
- Disability allowance (if the student is disabled)  
- Study abroad expenses  
- Cooperative employment expenses  
- Professional licensure or certification expenses  

The cost of attendance is the starting point in determining federal aid eligibility. The next step is determining how much the student—and their parent(s) if the student is dependent—is able to pay for college. To estimate this amount, the government requires students to fill out the Free Application for Federal Student Aid (FAFSA) detailing their income and assets—and their parents’ if the student is dependent. This financial information is used to calculate the Expected Family Contribution (EFC), which is essentially the government’s estimate of how much the student’s household can afford to pay for college that year. 

These two values—cost of attendance and expected family contribution—are the key determinants of eligibility for federal financial aid programs.

The higher the COA and the lower the EFC, the more aid a student can receive. Typically, EFC is less than COA, which means that the student cannot afford to pay what it would cost to attend the college. The student may therefore be eligible for need-based programs such as Pell grants and Work-Study.2 If aid from need-based programs and any other sources don’t exceed COA, students and parents can turn to non-need-based aid programs like Direct Unsubsidized Loans (for students) and Parent PLUS loans (for parents). Unlike most other aid programs, borrowing from the Parent PLUS program is limited only by the COA; so, if a student does not receive any other financial aid, a parent could take out a loan for the entire COA (Federal Student Aid).

### The Median Cost of College

The median cost of college is the median of the cost of attendance among the various colleges. 

The bottom panel of Figure 1 illustrates the difference between cost of attendance and median cost of college. Each dot represents the actual cost of attendance at each of the 1,989 colleges that offered on-campus room and board during the 2016-17 academic year. The cost of attendance at these colleges varied from $6,819 to $93,704.

To find the median cost of college, we find the median value among the cost of attendance values at the 1,989 colleges. In Figure 1, we have superimposed a boxplot, with the leftmost edge indicating the 25th percentile of the cost of attendance values ($20,607) and the rightmost edge indicating the 75th percentile ($45,608). The line within the box represents the median value ($30,000) indicating that half of colleges have a cost of attendance less than $30,000 and half of colleges have a cost of attendance greater than $30,000.

Under the current system, each of the individual cost of attendance values is used to determine aid eligibility, meaning some students had their aid eligibility determined based on a cost of up to $93,704 while other students had their aid eligibility determined based on a cost as low as $6,819. Under the median cost of college approach, all students’ aid eligibility would be determined based on the median value of $30,000.

However, we recommend making two further modifications when calculating the median cost of college.

### Use an Enrollment-Weighted Median

Colleges do not always have the same number of students. Hence, our first recommended improvement is to use an enrollment-weighted median instead, which would represent the median cost of college from the perspective of students.4

This value is labeled in Figure 1 as the Weighted Median ($25,765). In this case, it is less than the median value because colleges with a lower COA tend to be larger than colleges with a higher COA. However, as we will see later, the weighted median can also be higher than the median when students are concentrated at higher-cost colleges. Throughout this study, we will present the unweighted median as the “median cost of college,” and the

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1 Some of these components are adjusted by type of student, such as students attending part time, students in correspondence courses, and students currently incarcerated.  
2 Each of these programs has other eligibility requirements and a maximum award.  
3 Colleges with no students and those with a $0 cost of attendance were excluded.  
4 One variation would be to weight by graduates rather than enrollment, in order to give greater weight to programs that succeed in graduating their students.
enrollment-weighted median as the “median cost of college (enrollment-weighted).”

**Apply the Median Cost of College at the Program Level Rather Than the Institutional Level**

It may cost more to deliver an education in some fields than it does in others. So, our other recommended improvement is to calculate the median cost of college for fields of study and program level, rather than for entire colleges.

For example, the college in Figure 1 with a $93,704 cost of attendance is the Aviator College of Aeronautical Science and Technology, which specializes in certifying flight instructors. The college with the $6,819 cost of attendance is the South Georgia Technical College, where many students are seeking certificates in criminal justice, food preparation, and childcare. It is certainly feasible that an institution specializing in certifying flight instructors has higher costs than an institution where most students are seeking certificates in criminal justice, food preparation, and childcare fields.

To account for these differences in cost, the median cost of college for determining aid eligibility for federal financial aid programs should be calculated by program and level (e.g., “bachelor’s degree in accounting”) rather than by type of school (e.g., “four-year residential colleges”). Fortunately, the median cost of college can easily be calculated by program area and level by using the existing Classification of Instructional Programs (CIP) codes, which the Department of Education uses to track each program offering a certificate or degree in a given field (e.g., journalism programs use the CIP code 09.0401).

To see how this might work in practice, Figure 2 shows the cost of attendance in 2016-17 for 297 Medical/Clinical Assistant programs (CIP code 51.0801) with data, as well as what the median cost of college would have been. However, unlike the values in Figure 1, which show the true median cost of college, the values in Figure 2 are subject to two data limitations. First, program-level cost of attendance data is currently only collected for the largest program at each institution and only for institutions not following the traditional academic year calendar. Thus, the 297 programs here are only a subset of all the Medical/Clinical Assistant programs. Second, enrollment data is not currently collected at the program level, so the enrollment weights used here are based on total institutional enrollment rather than program enrollment. In short, the median cost of college values in Figure 2 would be more accurate if there was COA and enrollment data on all Medical/Clinical Assistant programs. Nevertheless, the snapshot provided by the programs with data available illustrates the basic process of finding the median cost of college by program.

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**Figure 1.** Cost of attendance at residential colleges (2016-2017)

Cost of attendance ranges from $6,819 to $93,704
- Median: $30,000
- Median (enrollment weighted): $25,765

Notes: Each circle represents a college. Outliers are in red.
Source: Texas Public Policy Foundation and IPEDS
During 2016-17, the cost of attendance for students enrolled in this subset of Medical/Clinical Assistant programs varied from $8,035 (at the Downey Adult School) to $71,259 (at the Keystone Technical Institute). Since the cost of attendance is the maximum Parent PLUS loan for parents of students that did not receive any other aid, the most aid a family with a student at the Downey Adult School could have been eligible for is $8,035, whereas the family of a student at the Keystone Technical Institute was potentially eligible for up to $71,259 in aid.

The median cost of college method would avoid such dramatic differences by using the median among colleges ($30,582) or the weighted median ($31,783) for aid eligibility purposes.

Optional: Calculate Medians for Only Some Components of Cost of Attendance

While we favor calculating the median for the entire cost of attendance, it is also feasible to apply this method to only certain components of the cost of attendance. For instance, Figure 3 presents the components of cost of attendance for the Medical/Clinical Assistant programs broken into four groups.

Among this subset of Medical/Clinical Assistant programs:

- “Tuition and Fees” vary from $3,355 to $34,290
- “Books and Supplies” vary from $0 to $4,208
- “Room and Board” vary from $2,700 to $22,900
- “Other Expenses” vary from $396 to $20,076

One could make the argument that differences in tuition and fees reflect differences in educational quality, in which case perhaps tuition and fees should not be subject to the median (we will critique this view later, but for now, let’s take it as a given). However, that argument does not apply to books and supplies, room and board, or other expenses. What public policy purpose is being served by letting one institution set “other expenses” at over $20,000 when the median college sets it at $4,305?

The larger point here is that it is feasible to apply the median cost of college to only a subset of the components of cost of attendance. For instance, we could apply the median calculation to books and supplies, room and board, and other expenses (or some combination), while allowing each college to use their own tuition and fees component.

The Benefits of Replacing Cost of Attendance with Median Cost of College

The median cost of college approach has several benefits.

**Median Cost of College Would Improve the Financial Aid Process**

Adopting the median cost of college system would improve the financial aid application process in two ways—it would better protect student privacy, and it would provide students with more timely information on how much financial aid they are eligible for.

**Better Protect Privacy**

One of the more puzzling steps of the current financial aid process is that the government requires students and their parents to divulge extensive details about their finances on the FAFSA, only to turn much of it over to colleges. This exposes students and their families to increased risk of their financial information being misused or stolen by unscrupulous university employees or hackers.

6 See the subsection “Incentivize Colleges to Measure and Improve Quality” for more details on why this argument is not convincing.

7 It also reduces a student’s ability to negotiate prices with colleges since the colleges know all their financial details.
This information is provided to colleges because the cost of attendance is different at each college and colleges often offer their own aid. Both can affect how much aid families can receive from the federal aid programs, so the colleges are best positioned to provide students with an initial estimate of their federal aid eligibility and have been tasked to do so by the government. However, under the median cost of college system, aid eligibility would not depend on the cost of attendance at a particular college; hence, there would be no need to turn over FAFSA information to colleges. This would help protect student and parent financial information and overall privacy.

Under the median cost of college systems, aid eligibility would not depend on the cost of attendance at a particular college.

Provide More Consistent and Timely Financial Aid Information to Students
Even though the federal government provides the aid, it is the college that informs the students of how much aid the government is providing; moreover, there is no standard terminology that colleges are required to use. This leads to a plethora of ways in which federal aid is described by colleges in their financial aid offer letters. For example, a recent study found that award letters sent to students used 136 different names to describe Federal Direct Unsubsidized Loans (Burd et al. 2018, 12). This lack of consistency is inherently confusing and, sometimes, is exploited to be intentionally misleading (20). The median cost of college would avoid this problem because the federal government, rather than each individual college, would provide an estimate of eligibility for each federal aid program once students submit the FAFSA.

The timing of the current method is also inconvenient for students because students generally need to apply to colleges and wait for acceptance decisions before knowing how much aid they are eligible for.

Replacing the cost of attendance with the median cost of college would allow students to get more timely information about the amount of aid they are eligible for. Students could get their aid estimate as soon as they complete the FAFSA, potentially as early as January (when students can start submitting the FAFSA), rather than having to wait until March or April when colleges make admissions decisions.

Median Cost of College Would Enhance Competition Among Colleges
Higher education is intensely competitive. However, surprisingly little of that competition centers on costs and prices. Adopting the median cost of college approach would improve the competitive landscape among colleges along this dimension and exploit the resulting competitive pressure, hence improving accountability, encouraging cost containment, and, in some cases, lowering prices.

Improve Accountability of Colleges for Public Funding
Public funding usually entails accountability responsibilities such as prohibiting extravagant expenditures. However, universities do not always meet this obligation, and the cost
of attendance does not help. Recall that all cost of attendance components are determined by the college. While certain portions such as the study-abroad and dependent-care allowances stand out for having the requirement that the costs be “reasonable,” the other components do not face such a suggestion.

Colleges have used this freedom in determining costs in several ways. Consider, for example, on-campus room and board costs within the same city. For instance, there were 27 residential colleges in New York City (NY) in 2016-17. As shown in Figure 4, on-campus room and board charges varied from a low of $4,000 (at the Mesivtha Tifereth Jerusalem of America) to a high of $21,000 (at the New York School of Interior Design).

Taxpayers might provide $17,000 more aid to students at one school for on-campus room and board—largely in the form of student loans—than to students at another school in the same city. Using the median amount ($15,910 [college] or $16,847 [student]) to determine aid, regardless of which college the student is attending, could help limit discrepancies in costs between colleges that may not be justified.

This discrepancy is not limited to New York. Figure 5 shows a similar range in Chicago, where room and board among the 16 residential colleges in the city varied from $5,775 (at the American Islamic College) to $15,093 (at the University of Chicago).

Housing costs can vary dramatically within a city; however, that is an argument for locating student housing in low-cost areas of a city rather than increasing subsidies for housing in high-cost areas. By analogy, the higher cost of growing oranges in Alaska than in Florida is not a convincing argument that we should increase subsidies for orange-growing in Alaska.

This argument could also hold between cities as well—higher costs in Chicago than in Cleveland are not a justification for higher subsidization of colleges in Chicago. It is hard to defend taxing relatively poorer Clevelanders to provide colleges in Chicago with higher subsidies. If high-cost areas would like to prevent college enrollments from shifting to lower-cost areas under the median cost of college method, they are free to use some of their higher property tax revenues to subsidize living costs at local colleges.

Alternatively, if desired during a transition period or even as a permanent feature, students in high-cost areas could be provided with more aid within the context of the median cost of college by utilizing a cost of living index to adjust room and board costs.

**Figure 4. Room and board costs at colleges in New York City (2016-2017)**

Room and board ranges from $4,000 to $21,000
- Median: $15,910 -- Median (enrollment weighted): $16,847

<table>
<thead>
<tr>
<th>Cost (in thousands)</th>
<th>College Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>$21,000</td>
<td>New York School of Interior Design</td>
</tr>
<tr>
<td>$20,350</td>
<td>LIM College</td>
</tr>
<tr>
<td>$19,677</td>
<td>CUNY John Jay College of Criminal Justice</td>
</tr>
<tr>
<td>$19,548</td>
<td>New York Conservatory for Dramatic Arts</td>
</tr>
<tr>
<td>$18,800</td>
<td>School of Visual Arts</td>
</tr>
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<td>$18,420</td>
<td>The New School</td>
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<tr>
<td>$18,280</td>
<td>Pace University-New York</td>
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<tr>
<td>$17,578</td>
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<td>$17,095</td>
<td>CUNY Bernard M Baruch College</td>
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<tr>
<td>$16,620</td>
<td>American Academy of Dramatic Arts-New York</td>
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<tr>
<td>$16,266</td>
<td>The King’s College</td>
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<tr>
<td>$16,000</td>
<td>Manhattan School of Music</td>
</tr>
<tr>
<td>$15,990</td>
<td>Marymount Manhattan College</td>
</tr>
<tr>
<td>$15,910</td>
<td>Cooper Union for the Advancement of Science and Art</td>
</tr>
<tr>
<td>$15,910</td>
<td>Jewish Theological Seminary of America</td>
</tr>
<tr>
<td>$14,460</td>
<td>Fashion Institute of Technology</td>
</tr>
<tr>
<td>$13,244</td>
<td>Columbia University in the City of New York</td>
</tr>
<tr>
<td>$12,150</td>
<td>American Musical and Dramatic Academy</td>
</tr>
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<td>$11,600</td>
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<td>$11,570</td>
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<tr>
<td>$10,095</td>
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</tr>
<tr>
<td>$4,000</td>
<td>Mesivtha Tifereth Jerusalem of America</td>
</tr>
</tbody>
</table>

Notes: Each circle represents a college.
Source: Texas Public Policy Foundation and IPEDS
October 2019
The Case for Replacing Cost of Attendance With Median Cost of College

High college costs are getting increasingly more attention from policymakers. It is possible that proposals will emerge to have the federal government impose controls on what colleges charge students for tuition and fees. This would be undesirable for at least four reasons. First, the federal government has no authority to impose these controls. Second, economic theory and the historical record indicate that price controls lead to unintended consequences (e.g., the deterioration in quality of housing due to rent controls). Third, the Department of Education is not well-equipped to determine how much it costs to deliver a college education or how to update this estimate in real time. Fourth, these controls would be exposed to unhealthy levels of political interference.

The current cost of attendance system avoids these problems by letting each college set its own cost of attendance. But this method also encourages inefficiency. An inefficient college that wastes money can simply raise its cost of attendance to cover the higher costs, automatically giving its students access to more aid.

The median cost of college system would preserve the decentralized and depoliticized cost determination of the current system but would add an incentive for colleges to contain costs. Under the median cost of college approach, if a college became more inefficient by wasting money and raised their cost of attendance, it is unlikely to significantly affect the median cost of college or increase the amount of aid for which a student is eligible. This would provide a strong incentive for high-cost colleges to eliminate inefficient and wasteful spending, saving students and taxpayers money.

Consider the costs of books and supplies. For example, textbooks for an English major may be cheaper than textbooks for a chemistry major. Additionally, the chemistry major may have laboratory costs as well. However, even within the same field, colleges estimate vastly different costs for books and supplies.

The median cost of college system would change this to a uniform $720 (college) or $710 (student). This would encourage the colleges that are currently budgeting for thousands of dollars to choose more affordable textbooks and find less costly supplies.

Lower Prices at Some Colleges
In part because higher tuition leads to higher aid eligibility, tuition can vary more dramatically than it would if students faced the full cost of differences in tuition. For example, consider the 1,039 Cosmetology/Cosmetologist programs (CIP code 12.0401) for which we have data for 2016-17 in Figure 7. Tuition and fees for these programs ranged from $2,845 to $24,075. Because students at higher cost programs are eligible for more aid, the high-cost programs don’t face as much market pressure to reduce prices as they otherwise would.

The median cost of college could change the dynamic by ceasing to give students at high cost programs access to more aid. Under the median cost of college approach,
all students in these programs would be eligible for aid based on the median cost of $15,410 or $16,000 (enrollment-weighted). This would encourage high-cost programs to lower their tuition and fees.

Moreover, the price effects are likely to be asymmetric—high-cost programs could be incentivized to lower their tuition and fees, but it is less likely that low-cost programs will be incentivized to raise their tuition and fees. The reason for the asymmetry is that the median cost of college adds a constraint for high-cost programs—they can no longer count on higher aid eligibility for their students. In contrast, low-cost programs face no new constraints or options. For low-cost programs, under both the current system and the median cost of college method, they could raise tuition and have some of the consequences partially offset by aid. So while their students may actually be eligible for higher aid amounts under the median cost of college, other factors that drove these programs to keep their tuition relatively low would still be in effect, so it is unlikely these programs would respond to the new system by raising tuition.

Reduce the Inflationary Effect of Aid on Tuition (Neutralize the Bennett Hypothesis)

One of the unintended consequences of the current system is that it encourages colleges to raise tuition, a phenomenon referred to as the Bennett hypothesis. Under the Bennett hypothesis, an increase in financial aid will not benefit students because colleges respond by raising tuition to capture the aid. The result is that colleges have more money, but students are, at best, no better off after both aid and tuition increase.

The Bennett hypothesis has been extensively studied and the evidence is decidedly mixed. Most studies find that there is not a $1 for $1 relationship, meaning that colleges rarely raise tuition by the entire amount of the increase in financial aid. However, most studies also rule out a $0 effect, meaning it is wrong to dismiss the Bennett hypothesis as a myth. As I have argued (Gillen 2012), asking, Is the Bennett hypothesis true or false? is the wrong question to ask because it has no consistent answer. A better question is, When does the Bennett hypothesis hold/not hold and why?

When evaluating this question, it appears that two factors are key. First, an increase in tuition needs to increase students’ aid eligibility. Second, the college needs to be able and willing to raise tuition.

Existing countermeasures for the Bennett hypothesis have attempted to break the second link in the chain (e.g., tuition caps at public colleges). But the first link in the chain—an increase in tuition leading to an increase in aid eligibility—has not been addressed, because it is mandated by how the cost of attendance is currently defined and utilized. When a college raises tuition by $1, its cost of attendance increases by $1, and the student is then eligible for $1 more in aid.

Adopting the median cost of college system would break this first link. Then, when a college raised tuition by $1, the median cost of college would likely remain unchanged, and

8 There are four cases in which a change in the cost of attendance at an individual college would affect the median cost of college. The first three
October 2019

The Case for Replacing Cost of Attendance With Median Cost of College

Incentivize Colleges to Measure and Improve Quality

The median cost of college method would improve on the current system—which uses price as its only metric of quality—by setting the default as equal treatment of programs while being flexible enough to account for quality differences for those fields where widespread agreement on a definition of quality can be reached.

For many programs, it is likely that there will be no widespread agreement on the definition of quality. There are numerous ways consumers (including parents, students, and employers) judge the value of an education, so coming up with a widely accepted measure of those various valuations is problematic in many cases. Without widespread agreement on what quality means, the government has no justification for providing students in some programs more aid than others.

Since colleges would not be able to harvest aid by increasing tuition, the median cost of college would neutralize the Bennett hypothesis.

But it is also possible that agreement about quality could be reached in some fields, and in these cases, quality can be incorporated into the median cost of college method. For example, suppose that a measure of learning (e.g., the Collegiate Learning Assessment, or passage rates on certification and licensing exams such as the bar exam for lawyers or the CPA exam for accountants) or earnings (e.g., the return on investment, default rates, or debt-to-salary ratios) gains widespread acceptance as a measure of quality for a particular field. These measures could then be incorporated into the median cost of college method. For example, the median for law schools could be calculated for different tiers of quality with tiers defined by value-added bar passage rates.
By treating programs equally until there is compelling evidence of differences in quality, the median cost of college method would be fairer for those fields where quality cannot be measured while at the same time providing an incentive for measures of quality to be developed for those fields where quality can be measured.

**Conclusion**

When determining student aid eligibility, Congress should replace the cost of attendance with the median cost of college. Adopting the median cost of college system would:

- Improve the financial aid application process by better protecting student and parent privacy as well as providing students with information about their aid eligibility earlier than the current system does;
- Enhance the competitive landscape, which would improve accountability, encourage cost containment, and lower prices at some colleges;
- Neutralize the Bennett hypothesis (increases in aid leading to higher tuition) by severing the link between an increase in tuition and an increase in aid eligibility;
- Incentivize colleges to measure and improve quality.

All of these benefits could be realized with just a small change in the Higher Education Act.

**References**


**About the Author**

Andrew Gillen is a senior policy analyst in the Texas Public Policy Foundation’s Center for Innovation in Education and an adjunct professor of economics at Johns Hopkins University. Prior to joining TPPF, Andrew spent 10 years at nonprofit and philanthropic organizations researching and trying to improve higher education, including as a program officer for the Charles Koch Foundation and in research roles for American Institutes for Research, Education Sector, the American Council of Trustees and Alumni, and the Center for College Affordability and Productivity. He also served on the U.S. Department of Education’s Advisory Committee on Student Financial Assistance. Andrew earned a BBA (business) degree from Ohio University and a Ph.D in economics from Florida State University.