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# The Role of Fees in Foreign Education: Evidence From Italy.\*

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## Abstract

This paper studies the determinants of international students' mobility at the university level, focusing specifically on the role of tuition fees. We derive a gravity model from a Random Utility Maximization model of location choice for international students in the presence of capacity constraints of the hosting institutions. The last layer of the model is estimated using new data on student migration flows at the university level for Italy. We control for the potential endogeneity of tuition fees through a classical IV approach based on the status of the university. We obtain evidence for a clear and negative effect of fees on international student mobility and confirm the positive impact of the quality of the education. The estimations also support the important role of additional destination-specific variables such as host capacity, the expected return of education and the cost of living in the vicinity of the university.

**JEL Classification:** F22, H52, I23, O15.

**Keywords:** Foreign students; Tuition fees; Location choice; University Quality.

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# 1 Introduction

Foreign higher education has become an increasingly important phenomenon these days. The degree of mobility of prospective students wishing to acquire their educational skills abroad has been constantly on the rise for more than 50 years. Large numbers of foreign students emigrating for the explicit purpose of completing their graduate and postgraduate studies at renowned universities are today a usual situation in any country and city of most industrial countries. While there were 0.6 million international students in 1975, this rose amounted to 3.5 million in 2005. Despite the turmoil caused by the financial crisis, the global quest for talented workers has pushed these numbers up further, with a 50 per cent increase between 2005 and 2015 (OECD (2015)). Even though these global numbers obviously hide some uneven developments, the number of students emigrating abroad to complete their education has increased in all origin regions of the world. For more than 15 years, foreign students have represented the fastest growing category of international migrants.

For destination countries, the inflow of foreign students yields significant benefits. Attracting students from abroad and charging significant tuition fees allow their universities to climb up the educational ladder and, in turn, to act as important research institutions. Many cities in the main destination countries for foreign students favor the development of their university, thus trying to benefit from the various spillovers that these institutions generate for the public and private sector. For governments, attracting foreign students is also an important objective in the global race for talented workers and might be seen as a concealed phenomenon of the brain drain. Governments attract promising students and provide, through foreign education, the skills needed and valued by their domestic labor market. By employing various schemes such as special transition visas, governments of destination countries allow those students to stay in the country and integrate more easily into the national labor market. Understanding the determinants of location choice for prospective students is therefore of utmost importance when developing appropriate policies for attracting talented international students.

This paper contributes to the literature on the identification of factors influencing students' decision about where to study when they want to study abroad. In particular, we assess the importance of various determinants of foreign students, using data at the university level for Italy for the academic year 2011-2012. Unlike other countries from Continental Europe such as France, Belgium or Germany, Italian universities (as UK Universities) show significant variation in the tuition fees across institutions.<sup>1</sup> This in turn allows us to study the role of fees for foreign students when choosing one specific location. This is in addition to other institutional characteristics such as the quality of education, host capacity, expected income, the cost of living and the use of the English language in the teaching programs.

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<sup>1</sup>The current version of this paper is the result of a split from a larger working-paper that conducted such an investigation for these two countries, Italy and the UK (see Beine et al. (2016)). The econometric approach used in the companion paper for the UK (see Beine et al. (2017)) is nevertheless different. In particular, the way endogeneity is dealt with does not rely on an IV strategy but rather makes use of the institutional caps on fees in place in different regions of the UK. The results are nevertheless qualitatively similar.

We compile and use data on foreign student flows between (almost) all countries of the world - the origin country - and each Italian university under investigation - the destination countries. Our econometric investigation, derived from a traditional Random Utility Model (RUM), adapted to student migration, pays special attention to the role of tuition fees. In the econometric investigation, we explicitly take into account the endogenous nature of these fees.

We find support for the role of the quality of the university, a result already found in some previous work (Beine et al. (2014); Van Bouwel and Veugelers (2013)). We also find that the host capacity of the university plus the expected return on education in the city where the education is acquired are important, in line with the spirit of the migration model of foreign education (Rosenzweig (2008)). Regarding the role of tuition fees, we first stress the need to deal with the endogeneity of these fees by isolating their impact on the location choice of foreign students. When dealing with this issue, we find that tuition fees have a more negative effect on the choice of a specific university. This result is definitely new to the existing literature.

Our paper is related to the extensive literature on foreign education. At the theoretical level, as reminded by Rosenzweig (2006, 2008), there are basically two complementary explanations for why students decide to go abroad to complete their higher education. While the education and migration models are about the decision to study abroad, much of the literature has been devoted to the location choice. Our paper belongs to this category. Most of the literature makes use of country-level data and combines a multi-origin approach.<sup>2</sup> Up until now, this literature has focused on factors observed at the country level. One of main value-added of the paper is that we conduct our analysis with universities as the destination. While a cross-country analysis is important to understand the reasons for the uneven distribution of students across destination countries, information at the country level conceals significant variation among universities of the same country. For instance, the average national quality of universities might not accurately reflect the attractiveness of the country

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<sup>2</sup>Bessey (2012) focuses on foreign students in Germany, finding that the stock and the flow of students of the same nationality are positively correlated. Dreher and Poutvaara (2005) and Rosenzweig (2006) look at the determinants of foreign education in the United States. The papers stress the importance of networks (Dreher and Poutvaara (2005)) and skill premium (Rosenzweig (2006)). Other studies combine various origins and destinations, carrying out estimations with a gravity model. Perkins and Neumayer (2014) consider many origin (151) and destination countries (105) over a couple of years and evaluate the role of geographic factors. Van Bouwel and Veugelers (2013) look at student migration among 18 European countries and assess the role of university quality, which was evaluated through the number of institutions appearing in the most widely known international university rankings. They show that quality matters but tend to find a positive impact of tuition fees. Beine et al. (2014) derive a gravity specification and focus on the 13 main destinations for foreign education. They estimate the role of determinants such as networks, quality and fees in explaining the extent of the bilateral flows of foreign students. Regarding fees, while they fail to identify a negative impact of tuition fees, they do show that the positive impact of fees obtained in "naive" regressions might be due to endogeneity. Other interesting papers of the literature using dyadic flows include Abbott and Silles (2015), Jena and Reilly (2013), González et al. (2011), Kahanec and Králiková (2011). Gravity models have also been used to explain student mobility between regions of the same country. See for instance Agasisti and Dal Bianco (2007) for Italy. Alecke and Mitze (2013) and Bruckmeier et al. (2013) exploited German data and give a special attention to the role of tuition fees.

as a provider of tertiary education. Foreign students might concentrate, for instance, on the upper tier of universities in the country. The distribution of foreign student across Italian Universities confirm that it is definitely the case. Therefore, the fact that a country hosts many universities of relatively modest quality might not be an important factor, at least for explaining inflows of foreign students to that country. This in turn stresses the need to use information at the university level. The same applies to fees. The average level of fees might not mean anything for students since they might end up relatively good universities charging relatively higher fees. To overcome this limitation, we study the role of these factors, observed at the university level. While we do ignore the first step in the decision-making process (choice of the destination country), we identify very precisely the various university-specific factors that lead students to choose among Italian institutions. Such an investigation is unique in the literature in that respect.

The second related contribution is our focus on the role of tuition fees in the choice of location by foreign students. The literature has failed to find a clear negative impact of fees on the size of student inflows. This contrasts with the literature focusing on native students.<sup>3</sup> Of course, failure to find a negative impact does not mean that these results are spurious per se. Indeed, fees include more than the pure cost component for prospective students. High fees obviously signal quality and the institution's commitment to providing students with all the necessary means to absorb the delivered learning. Fees, for instance, increase the accountability of education providers with respect to students. Another possible explanation is that fees can be covered by grants. This is especially true for foreign students who can benefit from grants from different sources (government of the origin country, university of destination, non-for profit organisation promoting bilateral contacts, etc.). While this might not be the situation for all students, the partial coverage of fees by grants might explain the insignificant impact of fees that is sometimes observed (see, for example, Beine et al. (2014)).

On the other hand, results showing positive or even zero impact of fees might be spurious due to the high degree of endogeneity of fees. Fees are higher when universities succeed in attracting many students, which leads to reverse causality issues. Fee levels might be correlated with factors such as unobserved amenities in the destination countries or with unobserved institutional factors at the country level (regulation of subsidized institutions). This calls for a causal identification accounting for the possible endogenous status of the observed fees in the econometric regression. We pay specific attention to this issue, using a classical instrumental variable (IV) approach. We instrument the tuition fees by the status of the university (private *vs.* public). Private institutions tend to charge higher fees to cover specific costs and to offset the lower public subsidies compared with public institutions. Our exclusion restriction assumes that students have no particular preferences for private *vs.* public institutions beyond the costs and the quality of education (for which we control in the regression) when choosing a specific university. We further show that the obtained negative impact of fees is robust to reasonable deviations from the strict exclusion restriction

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<sup>3</sup>Alecke and Mitze (2013) study how an increase in the level of tuition fees charged in Germany affected the internal mobility of students. Bruckmeier and Wigger (2015) address the same increase, focusing on how it relates to the time of graduation.

by employing methods described in Conley et al. (2012).

To the best of our knowledge, this paper is the first one that pays particular attention to the effect of fees. Specifically, we find evidence of a significant and negative impact of this variable on international students' mobility. We check the robustness of our findings by estimating several variants of our baseline specification. For instance, we include in the set of determinants a dummy variable that captures the availability of English teaching programs at the destination university. Our baseline result regarding the impact of tuition fees gets additional confirmation, namely, that the coefficient is still negative and significant but larger in absolute value. Furthermore, we estimate a specification closer to the estimation of a multinomial logit model. The results obtained there are in line with the baseline ones.

Finally, we look carefully at the technical and econometric details of the empirical investigation. First, we use a specification derived from an original micro-founded model based on the RUM approach with an explicit role for capacity constraints. Using such a framework facilitates the choice of the specification. While this has been advocated by many authors in the general literature devoted to economic international migration (Beine et al. (2015, 2011); Grogger and Hanson (2011)), the use of a theoretically consistent specification in the student literature has been very limited. Second, given the high prevalence of zero bilateral flows in the data set, the use of Poisson ML estimators is much favored (Silva and Tenreyro (2006)) in order to provide unbiased estimates of the key variables. Furthermore, we combine Poisson estimations with the use of instrumental variable, attempting to account for the two main biases arising in the estimation of gravity models.

The paper is structured as follows. Section 2 presents a small theoretical model that is useful for deriving the estimable gravity equations. Section 3 is devoted to the exposition and clarification of the data that we use in the econometric estimations. Section 4 presents the estimable gravity equations and discusses the main econometric issues, including the treatment of the zeros for the dependent variable and the way we deal with endogeneity issues. Section 5 presents the results while Section 6 concludes.

## 2 Theoretical Background

This section describes briefly the model used to derive a tractable students' migration equilibrium equation that is estimated using data from Italian universities. The theoretical model is based both on the human capital literature and on the random utility maximization approach to migration. Here we provide the main equations reflecting the structure of the model. The full model can be found in Beine et al. (2016).

Education is considered an investment in future earnings and employment (Becker (1964)) for rational students who seek to maximize their lifetime earnings. The quality of education may affect their expected returns to education (Card and Krueger (1992)).

Following the Random Utility Model (RUM) approach (McFadden (1984)), the prospective student migrant compares the present value of future earnings if he/she decides to study in a university at home with the present value of future earnings if he/she studies at a university abroad. If the increase in the present value of the future income is greater than the

cost of migrating, plus other education costs, the student decides to move to the university yielding the highest net present value. Nevertheless, this is conditional because universities have enrollment capacity constraints. The equilibrium condition giving the number of students coming from a given country and studying in a given university is the result of the self-selection factors captured by the traditional RUM model (students' choice) and of the out-selection factors related to the capacity constraints of each university.

## 2.1 Students' Choice

The set of destination countries is  $D = \{d_1, \dots, d_{n_d}\}$  with  $n_d$  the number of destination countries ( $j$  is the index for destination country) and the set of origin countries is  $O = \{o_1, \dots, o_{n_o}\}$  with  $n_o$  the number of origin countries ( $o$  is the index for the origin country). Countries can be inside both  $D$  and  $O$ . The set of universities in country  $d$  is  $U^d = \{u_1^d, u_2^d, \dots, u_{n_u^d}^d\}$  with  $n_u^d$  the total number of universities in country  $d$  ( $u^d$  is the index for university). The set of students in each country  $o$  who aspire to undertake studies in higher education is  $S^o = \{s_1^o, s_2^o, \dots, s_{N_s^o}^o\}$ , with  $N_s^o$  the total number of young people in country  $o$  who aspire to study. The index for student is  $s$ .

Utility derived from studying in university  $u^d$  located in country  $d$  of student  $s$  from country  $o$ , expressed as  $VS_{o,d,u^d}^s$ , is separated into two parts. One part is deterministic and varies by the origin and university destination pair,  $VS_{o,d,u^d}$ . This deterministic and observable component of utility is logarithmic. The other part is stochastic and captures unobserved components of the individual utility associated with each university choice ( $\epsilon_{o,d,u^d}^s$ ).

$$\begin{aligned} VS_{o,d,u^d}^s &= VS_{o,d,u^d} + \epsilon_{o,d,u^d}^s \\ &= \ln \left( \frac{(IW_{o,d,u^d})^{\beta_1} A_d^{\gamma_1}}{\delta_{o,d,u^d}} \right) + \epsilon_{o,d,u^d}^s \end{aligned} \quad (1)$$

where  $IW_{d,u^d}^s$  is the discounted sum of the annual expected labor income of student  $s$  who graduated from university  $u^d$  (depends on the value of average earnings in area  $u^d$ :  $w_{u^d}$ ). The labor income depends in turn on  $w_{u^d}$  the value of average earnings in area  $u^d$ ;  $Q_{u^d}$  the quality of education where the education has been attained; and  $\bar{Q}_d$  the average quality of education in the country  $d$ .  $\delta_{o,d,u^d} (> 1)$  is an iceberg total cost factor. This iceberg cost includes a country-pair specific cost  $CM_{o,d}$  that depends on the dyadic distance, in the broad sense, between the two countries. It also depends on the cost of education in university  $u^d$  which is given by the level of tuition fees ( $CS_{u^d}$ ). Finally, the cost also depends on the cost of living in the city where the university  $u^d$  is located ( $CL_{u^d}$ ).  $A_d$  are some country-specific unpriced amenities.

Following the random utility approach to discrete choice problems (McFadden (1984)), the probability that student  $s$  from country  $o$  chooses university  $u^d$  in country  $d$  is given by:



$$\begin{aligned}
P_{o,d,u^d} &= \text{Prob}[VS_{o,d,u^d}^s > VS_{o,i,u^i}^s], & \forall u^i \neq u^d \text{ and } \forall i \in D \\
&= \text{Prob}[VS_{o,d,u^d}^s - VS_{o,j,u^i}^s > \epsilon_{o,i,u^i}^s - \epsilon_{o,d,u^d}^s], & \forall u^i \neq u^d \text{ and } \forall i \in D \quad (2)
\end{aligned}$$

with  $\epsilon$  being an independent and identically distributed (iid) extreme-value distributed random term.

Following Train (2003), this probability can be decomposed into three logit probabilities:

$$P_{o,d,u^d} = P_{o,u^d|d,h} P_{o,d|h} P_{o,h} \quad (3)$$

The present paper focuses on the determinants of  $P_{o,u^d|d,h}$ , that is the probability of choosing university  $u^d$  conditional on studying abroad and having chosen country  $u^d$ . This conditional probability takes a logit form:

$$\begin{aligned}
P_{o,u^d|d,h} &= \frac{\exp(VS_u(X_{u^d}))}{\exp I^u(d, h)} \\
&= \frac{\exp(\beta_1 \ln(w_{u^d}) + \beta_2 \ln(Q_{u^d}) - \beta_3 \ln(CS_{u^d}) - \beta_4 \ln(CL_{u^d}))}{\exp I^u(d, h)} \quad (4)
\end{aligned}$$

where  $VS_u(X_{u^d})$  is the lower level utility which depends on characteristics that vary across universities ( $X_u = \{Q_{u^d}, w_{u^d}, CS_{u^d}, CL_{u^d}\}$ ) and  $I^u(d, h)$  is the inclusive value.

At the aggregate level, the total number of people from country  $o$  wishing to study at university  $u^d$  located in country  $d$ , is given by:

$$M_{o,d,u^d} = P_{o,d,u^d} N_s^o = P_{o,u^d|d,m} P_{o,d|m} P_{o,m} N_s^o \quad (5)$$

where  $N_s^o$  is number of people in country  $o$  wishing to study. Likewise,  $M_{d,u^d} = \sum_{o \neq d} P_{o,d,u^d} N_s^o$  is the *ex ante* enrollment demand, that is the total number of foreign students wishing to study at university  $u^d$ . Universities have enrollment policies that can lead to the number of foreign students enrolled being lower than  $M_{d,u^d}$ . To derive the actual number of foreign students enrolled, we need to explain their enrollment behavior.

## 2.2 Universities' Behavior

We assume that all universities have the same enrollment behavior. In the short term, the enrollment behavior of university  $u^d$  is determined by the capacity for foreign students' enrollment  $EC_{u^d}^{\beta_5}$ , where  $\beta_5$  defines the share of total enrollment capacity  $EC_{u^d}$  devoted to foreign students. In the short run, university quality  $Q_{u^d}$  and tuition fees  $CS_{u^d}$  are fixed. Consequently, the foreign student enrollment capacity can be constrained for university  $u^d$ , with the actual number of foreign students being  $\tilde{M}_{d,u^d}$ , which implies:

$$\tilde{M}_{d,u^d} \leq EC_{u^d}^{\beta_5} \quad (6)$$

We assume that at least one university is constrained. For that university, some students are forced to change their first choice and to enroll in another university. In that case, the total allocation is also constrained and the choices based only on preferences differ from the observed (*ex post*) allocation. We define how this *ex post* allocation can be done.

## 2.3 Equilibrium Allocation With Enrollment Capacity Constraints

The process of allocation of *ex ante* demands to the *ex post* constrained positions for foreign students is based on the approach of De Palma et al. (2007). The existence of a feasible allocation requires the total world enrollment capacity not to be binding. Any student who wants to study abroad could be enrolled in a university, but not necessarily in his or her preferred university. The number of *ex post* students from  $o$  going to university  $u^d$  in country  $d$  is given by

$$\tilde{M}_{o,d,u^d} = \tilde{P}_{o,d,u^d} N_s^o = \tilde{P}_{o,u^d|d,m} \hat{P}_{o,d,m} \hat{P}_{o,m} N_s^o \quad (7)$$

where  $\tilde{P}_{o,d,u^d}$  is the (*ex post*) probability that student  $s$  coming from country  $o$  is enrolled in university  $u^d$  in country  $d$ .<sup>4</sup> As shown by De Palma et al. (2007), allocation is feasible, assuming two allocation rules. One is the *free allocation* rule for unconstrained universities, implying that a student preferring university  $u^d$  will be enrolled in that university. The second rule is the *no priority* rule for constrained universities; this states that the student with a stronger preference for university  $u^d$  compared with another student will have a proportionally greater chance to be allocated *ex post* to the preferred university. With these assumptions, the *ex post* allocation in an *ex ante* non-constrained university in country  $d$  can be modified by the reallocation implied by the constraints on the university in country  $d$  or other countries. In this case, we should estimate, using an iterative algorithm, all the probabilities for each university in each country. However, this goal is unrealistic because it implies that data for all universities in the world are available. Nevertheless, this limitation can be overcome if we assume that each university in one country faces a binding enrollment capacity constraint. With such assumption, it becomes possible to estimate the allocation in this country, independently of that for all the other countries. (See Beine et al. (2016) for an exposition of full model.)

## 2.4 Estimable Equilibrium Equation

The assumption that all universities in a given country are constrained by their enrollment capacity - that is, they face a demand higher than their capacity - is not an unreasonable hypothesis for Italy. This leads to the equilibrium number of *ex post* students migrating from  $o$  to  $d$  and studying in university  $u^d$ :

$$\tilde{M}_{o,d,u^d} = \frac{EC_{u^d}^{\beta_5} \exp(V S_u(X_{u^d}))}{M_{d,u^d} \sum_{u=1}^{n_u^d} \exp(V S_u(X_u))} \hat{M}_d^o \quad (8)$$

with  $\hat{M}_d^o = \hat{P}_{o,d,m} \hat{P}_{o,m} N_s^o$ .

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<sup>4</sup>The formulas of  $P_{o,d,m}$  and  $P_{o,m}$  are not modified by constraints at the university level. However, the calculus of the inclusive value  $I_{d,h}^u$  is modified with constraints at the university level, and, therefore the values of  $P_{o,d,m}$  and  $P_{o,m}$ . These new values are represented by  $\hat{P}_{o,d,m}$  and  $\hat{P}_{o,m}$ .

Taking logs and substituting the components of the utility function  $VS_u(X_{u^d})$ , we obtained the following estimable equilibrium equation:

$$\ln(\tilde{M}_{o,d,u^d}) = \beta_1 \ln(w_{u^d}) + \beta_2 \ln(Q_{u^d}) - \beta_3 \ln(CS_{u^d}) - \beta_4 \ln(CL_{u^d}) + \beta_5 \ln(EC_{u^d}) - \ln(M_{d,u^d}) - \ln\left(\sum_{u=1}^{n_u^d} \exp(VS_u(X_u))\right) + \ln(\hat{M}_d^o) \quad (9)$$

Before proceeding to the econometric specification corresponding to equation (9), some comments are in order. First,  $\beta_5$  is the average propensity of all universities to apply the capacity constraint to foreign students. Theoretically, this average propensity should be between 0 and 1. Second, the term  $\ln(\sum_{u=1}^{n_u^d} \exp(VS_u(X_u)))$  does not vary across universities and will be captured by the constant. Third,  $\hat{M}_d^o$  is specific to the origin country and could be included in a fixed effect controlling for all factors that are specific to the foreign student's country of origin. Finally,  $\ln(M_{d,u^d})$ , the *ex ante* demand from foreign students to each university of country  $d$  is not observed by the econometrician. We will therefore discuss its omission in the context of instrumental variable estimation.

### 3 Data and Descriptive Statistics

This section presents the data used to estimate equation (9). It details the sources and the development of some indicators such as the one capturing university quality, and provides descriptive statistics for each of them. Table 14 in the Appendix provides a summary of the data used in the econometric analysis.

#### 3.1 International Students flows

To measure  $\tilde{M}_{o,d,u^d}$  in equation (9), we take advantage of the data on bilateral flows of international students from all countries of the world to Italy for the academic year 2011-2012. Following Beine et al. (2014), the international students we consider are the ones who migrated exclusively for the sake of education. Those who spent either one or more semesters abroad in institutional programs, such as the ERASMUS students, do not comply with our definition of international students and are therefore excluded from the data. We omit these students from the analysis for two reasons. First, bilateral agreements constrain the student's choice in terms of location. Second, in some curricula, attending a period of study abroad can be compulsory.

The statistical office of the Italian Ministry of Education (MIUR) provides data on foreign students for 79 universities in Italy.

Table 1 reports some descriptive statistics on the number of foreign students. Italy is not a major destination for international students who represent on average 3.65 per cent of the total student population. These students originate from 168 different countries.<sup>5</sup>

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<sup>5</sup>In the empirical part, we pay attention to not losing the information relative to the empty corridors,

Table 1: Descriptive Statistics of Foreign Student Flows (2011)

Number of universities (a)	79
Origin countries (b)	168
Number of observations (axb)	13272
% of zeros**	68.64%
Total number of students (host capacity)* (c)	1710701
Number of foreign students* (d)	62512
Foreign student as share of total students* (d/c)	3.65%

\*Numbers are computed aggregating all origin countries.

\*\*The flow of students coming from country  $i$  and studying in university  $u$  is nil.

Figure 1 shows the distribution of the share of foreign students across universities. Most Italian universities' share of foreign students is below the 10 per cent level with respect to their total student population. Table 2 confirms this fact, with an average share relatively low, 3.9%, and a median around 2.7%. There are still a significant number of universities for which the share is above 5 per cent.

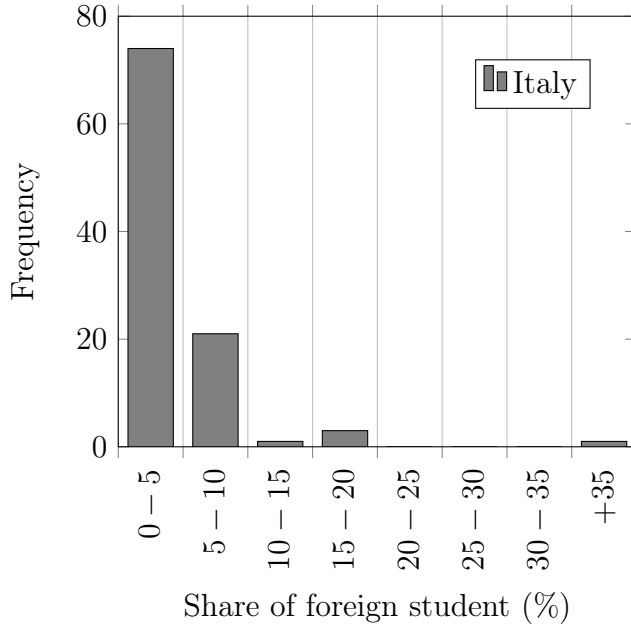


Figure 1: Share of Foreign Students

Mean	3.88%
Median	2.73%
Standard deviation	4.87%
Min	0.00%
1st Quintile	0.62%
2nd Quintile	1.72%
3rd Quintile	4.00%
4th Quintile	5.64%
Max	35.19%

Percentage of total students

Table 2: Share of foreign students

To gauge the diversity of the foreign student population, we refer to four multi-group

i.e. origin-destination pairs with zero migration flow. The total number of observations is then equal to the number of universities multiplied by the number of origin countries.

segregation measures. Since we are more interested in the location choice of students than the universities' recruitment policies, we focus on diversity across institutions for each origin country, rather than diversity across origins for each institution.

The four multi-group segregation measures of Table 3 are presented and evaluated in Reardon and Firebaugh (2002). The first two measures, *dissimilarity index*<sup>6</sup> and *gini index*, view segregation as a disproportion in the proportions of each origin across universities. This also refers to the measurement of inequality. The higher the index, the greater the segregation. Both indicate that Italy displays a significant variation in foreign students by origin across institutions. Figure 2 provides the distribution of the dissimilarity index for each origin-country birthplace of international students. This evenness index varies between 0 (similar distribution of each origin country and the total student population distribution) and 1 (maximum segregation). It could be interpreted as the share of the students from each origin country that would have to move (to another university) to match the dispersion of the total student population. The large share of origin groups with a high dissimilarity index (between 0.9 and 1) is due to the large number of origin countries with very few individuals.

Entropy is another way to measure segregation. It is given by the last two indices in Table 3, that is, the information theory criterion and the relative diversity. In contrast to the previous indicators, segregation is decreasing with the index value. Again, these two other indices suggest that there is a significant degree of segregation in Italy.

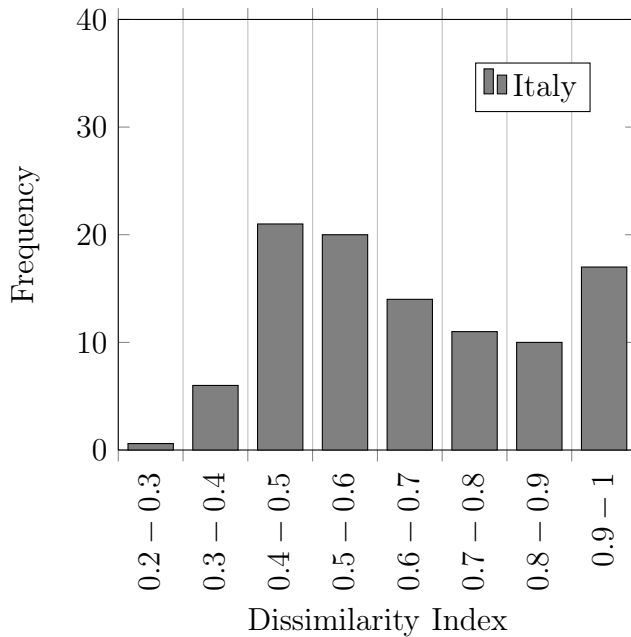


Figure 2: Dissimilarity Indices

Dissimilarity (Sakoda (1981))	0.383
Gini (Reardon (1998))	0.511
Information theory (Theil (1972))	0.289
Relative diversity (Carlson (1992))	2.284

The reference is the original citation for multi-group form

Table 3: Four Multigroup Segregation Measures

<sup>6</sup>The multigroup dissimilarity index is a weighted average of origin indices.

## 3.2 Covariates

### 3.2.1 Cost of Living

Data on cost of living (in equation ( $CL_{u^d}$ )) come from the *Numbeo* website. This website provides various indexes of the cost of living for each city. We use the "Consumer Price plus Rent index" for the year 2011.<sup>7</sup> *Numbeo* computes the index, relying either on user input data or on data collected manually from authoritative sources such as websites of supermarkets, governmental institutions or other surveys. *Numbeo* applies different techniques to filter out noisy data.

*Numbeo* doesn't provide information for each cities where are located the universities. For the missing locations, we compute the closest city in terms of geodesic distance to the ones for which the data are available and we take the respective cost of living index of that city. Figure 3 provides the distribution of the indicator. Table 4 provide the moments and the quantiles of the distribution. Both suggest that the cost of living considerably varies across cities.

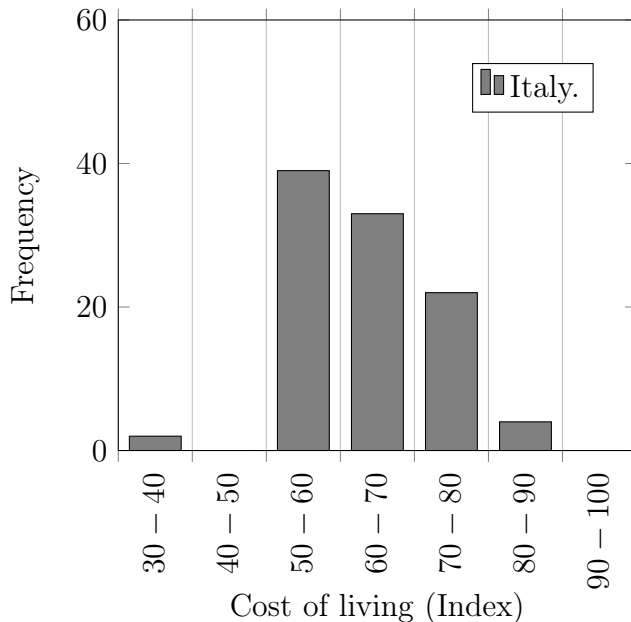


Figure 3: Cost of Living

Mean	64.09
Median	62.06
Standard deviation	9.13
Min	36.17
1st Quintile	57.21
2nd Quintile	59.99
3rd Quintile	64.12
4th Quintile	73.37
Max	88.20

Index, base 100 for New-York city

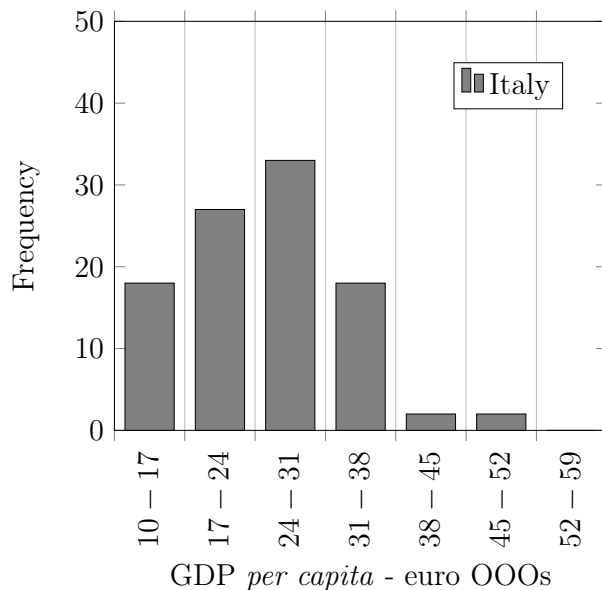
Table 4: Cost of Living

### 3.2.2 Expected Income

We proxy expected income ( $w_{u^d}$  in equation (9)) at destination either by using the GDP per capita of the city of destination or, when the data are not available, the one relative to the district in which the city is located. We compute this measure using both GDP and

<sup>7</sup>The indexes are relative to New York city index that is normalized to 100.

population data provided by EUROSTAT.<sup>8</sup> Figure 4 and Table 5 suggest that the income distribution across locations is quite heterogeneous across cities.



Mean	25.54
Median	24.55
Standard deviation	7.85
Min	14.61
1st Quintile	17.56
2nd Quintile	23.41
3rd Quintile	28.49
4th Quintile	31.36
Max	51.51

GDP *per capita*, euro OOOs

Figure 4: Expected returns of education at destination

Table 5: Expected returns of education at destination

### 3.2.3 Tuitions Fees

The cost of education  $CS_{u^d}$  in equation (9) is captured by the level of tuition fees. Italy is one of the few European countries in which tuition fees vary across institutions. The European Commission (European Commission (2012)) reports key information on tuition fees charged by European universities during the academic year 2011-2012.

Italian universities are classified either as private or public institutions. In contrast to most continental European countries, tuition fees charged by Italian public universities are not uniformly determined by the central government. According to the Italian law (Decree of the President of the Republic of 25.07.1997, N°306), the total amount of fees collected by a public university cannot exceed 20 per cent of the funding received by this university from the Italian Ministry of Education. Conversely, for Italian private institutions, this 20 per cent limit does not apply, and they do charge higher fees. Tuition fees in Italian public universities depend on many determinants, in particular, on the student's family income and on the year of enrollment. Furthermore, Italian institutions do not charge higher tuition fees for non-European students.<sup>9</sup>

<sup>8</sup>We exploit the data provided at the Nuts 3 level of the REGIO dataset.

<sup>9</sup>Only other five European countries treat equally non-European students: the Czech Republic, Hungary, Iceland, Liechtenstein and Norway (European Commission (2012)).

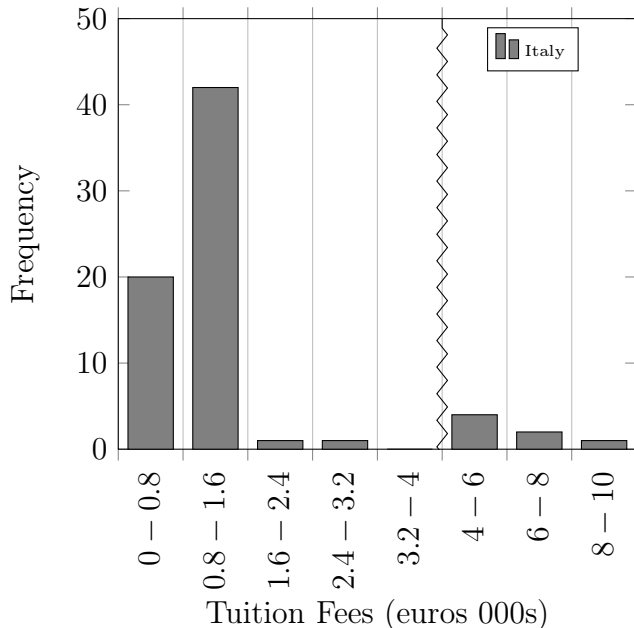


Figure 5: Tuition fees

Mean	1.41
Median	0.94
Standard deviation	1.57
Min	0.05
1st Quintile	0.63
2nd Quintile	0.84
3rd Quintile	1.00
4th Quintile	1.16
Max	8.26

\* for non-EU students

Table 6: Tuition Fees (euros, 000s)

Our primary source of data on (average) tuition fees is based on a survey conducted by the economic newspaper "*Il Sole 24 Ore*".<sup>10</sup> Data were missing for a few public Italian universities. In that case, we used an average computed at the regional level by an Italian consumer association (*FederConsumatori*). Data relative to private institutions are available for 9 of the 17 institutions that make up the baseline data set. Figure 5 reports the distribution of tuition fees for Italian universities. Only private institutions charged average fees above the level of € 2,000.

### 3.2.4 University Quality

Equation (9) involves the quality of university ( $Q_{ud}$ ) as a determinant of expected income generated by education and hence of inflows of foreign students. In line with Beine et al. (2014) and Perkins and Neumayer (2014), we proxy university quality by exploiting the Top-500 Shanghai ranking for the year 2011 (ARWU). This ranking determines the 500 best universities in the world.<sup>11</sup> Although the index is widely known among international students and firms, its use is subject to discussion. The index should basically be interpreted as a measure of how international students perceived quality of education.

For any university appearing in the ranking, we know both its position in the ranking and the relative score that is obtained. By exploiting this information, we compute two quality indexes. The first one is obtained by a simple rescaling of the ARWU ranking. Specifically,

<sup>10</sup>We include first-degree and master-degree students.

<sup>11</sup>The ARWU considers every university that has any Nobel Laureates, Fields Medalists, highly cited publications or papers published in Nature or Science. 1000 universities are considered and the best 500 are included in the ranking. For a full explanation on the index development, please see <http://www.shanghairanking.com/ARWU-Methodology-2011.html>.



if the university does not appear in the ARWU list, our index takes a value equal to 1; if the university is included, the index takes its position into account and is given a value of  $(500 + 2) - ranking$ . The implicit assumption is that the index increases in a linear fashion along with the ranking.

The ranking indicator, nevertheless, has some limitations. It assumes that quality is reflected in a linear way by the position of the university in the ranking. In other terms, it disregards the fact that the score on which the ranking is based might be quite similar in a set of universities.<sup>12</sup> So, to account for the specific empirical distribution of the score, we also use the score of the Shanghai ranking of the position. Our quality measure takes a value equal to the *score* if the university appears in the top-500 ranking. Otherwise, the index is simply equal to 0. Twenty Italian higher education institutions were included in the top-500 ARWU ranking for the year 2011.

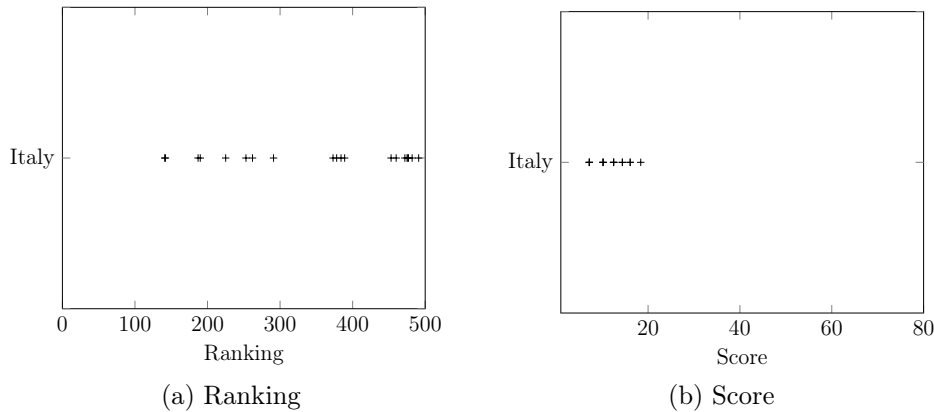


Figure 6: Indicators of University Quality

Figure 6 plots the two indicators of quality. Panel (a) provides the ranking indicator. Panel (b) does the same for the score indicator. The figures suggest that, at least from an empirical point of view, it is important to use both indicators to account for the potential difference in the way they reflect quality.

### 3.2.5 Host Capacity

The specificity of our RUM model takes into account the capacity constraints of the universities. The constraints in terms of host capacity ( $EC_{ud}$  in equation (9)) is captured by the total number of students enrolled at the university of destination during the academic year considered. The distributions (see Figure 7) looks more like an U shape. The number of universities over 40,000 students is high and close to the number of universities with fewer than 5,000 students. Figure 7 and Table tab:hostcapacity show a considerable heterogeneity in the host capacities of Italian universities.

<sup>12</sup>For instance, while the first university (Harvard) has a global score of 100, universities ranked between position 2 and 5 have scores between 72.6 and 70.0. Universities ranked in positions 51 to 100 have scores between 31.7 and 24.2, suggesting that the distribution is significantly skewed to the right.

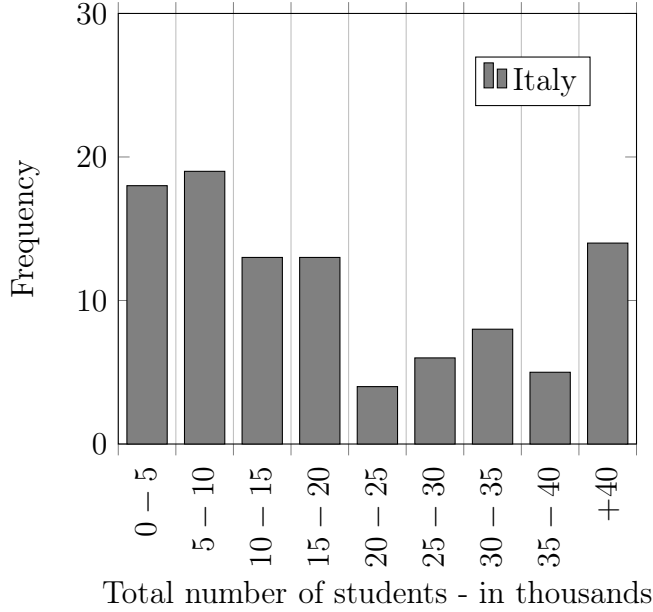


Figure 7: Host Capacity

Mean	21932
Median	14807
Standard deviation	21721
Min	405
1st Quintile	5789
2nd Quintile	10735
3rd Quintile	17672
4th Quintile	33961
Max	11304

Total number of students

Table 7: Host Capacity

## 4 Econometric Specification

### 4.1 From Theory to Econometric Specification

Our econometric specification is based on equation (9) that provides the determinants of choosing a specific university, conditionally upon studying abroad in a specific destination country (i.e. Italy). The benchmark estimated equation takes the following form:

$$\ln(\tilde{M}_{o,d,u^d}) = \alpha + \alpha_d + \beta_1 \ln(\text{expreturn}_{u^d}) + \beta_2 \ln(\text{quality}_{u^d}) + \beta_3 \ln(\text{fees}_{u^d}) + \beta_4 \ln(\text{livingcost}_{u^d}) + \beta_5 \ln(\text{hostcapacity}_{u^d}) + \epsilon_{d,u^d} \quad (10)$$

where  $\tilde{M}_{o,d,u^d}$  denotes the observed number of students coming from country  $o$  and studying in university  $u^d$  in country  $d$ . As noted above, this is applied to one specific academic year, 2011-2012. The data are therefore dyadic and time-invariant in nature.

$\text{fees}_{u^d}$ ,  $\text{livingcost}_{u^d}$ ,  $\text{quality}_{u^d}$ ,  $\text{hostcapacity}_{u^d}$ , and  $\text{expreturn}_{u^d}$  stand respectively for  $CS_{u^d}$ ,  $CS_{u^d}$ ,  $Q_{u^d}$ ,  $EC_{u^d}$  and  $w_{u^d}$  in equation (9).  $\alpha_d$  is a set of fixed effects controlling for all factors specific to the country of origin of the foreign students. It includes  $\ln(\hat{M}_d^o)$  in equation (9). Given that we focus on a specific country, i.e. Italy,  $\alpha_d$  also controls for bilateral factors between the origin country and the university.  $\alpha$  is a constant term that includes the theoretical term  $\ln(\sum_{u=1}^{n_u^d} \exp(VS_u(X_u)))$  from equation (9) that does not vary across institutions.  $\epsilon_{d,u^d}$  is an error term that is assumed to be independently and identically distributed.

Before we proceed to the estimation, a couple of comments are in order. First, we make clear that equation (10) corresponds to the last stage of the migration process of foreign students. Previous stages concern (i) the decision to study abroad or domestically, and (ii) the choice of the country of destination. This paper focuses only on the last stage. Another possibility would have been to integrate several destination countries in the same analysis, that is, to pool universities of different countries. Beyond the limitations in data availability, this is not desirable for several reasons. The main objection is that pooling universities of different countries would lead to a clear rejection of the IIA hypothesis implicit in the estimation of (10). The rejection of the IIA hypothesis would occur because the choice structure involves two countries that might be considered as nests in the decision process. Given that it is very likely that the degree of substitution between two universities varies with respect to the country of destination, we prefer in the end to estimate the model separately for each country of destination. This issue is also related to the well-known problem of multilateral resistance of migration (Bertoli and Fernández-Huertas Moraga (2013); Beine et al. (2015)). In other words, pooling several countries and integrating the choice of the destination country would entail the estimation of a nested logit model with two potential nests. This is obviously beyond the scope of this paper and is left for future investigation.

Second, equation (10) omits the term  $\ln(M_{d,u^d})$  in equation (9) which is unobservable. This term indeed captures the total demand to university  $u^d$  coming from all origin countries before the impact of the constraints associated with the educational capacities. While in theory this is observable for each university, it is not available to the econometrician and will be included in the error term. This in turn might lead to estimation biases that we will discuss in the identification strategy, especially in the IV procedure. (See section 4.3.)

## 4.2 Econometric Method

Another issue is the prevalence of a high percentage of zero values for the bilateral migration flows. In our sample, for the year 2011 under investigation, we have 68.9 per cent zero values for the bilateral flow of foreign students to Italy. The presence of a high proportion of zero values is well-known to generate biases in the key estimates using traditional panel fixed-effect estimates (Silva and Tenreyro (2006)). The use of  $\log(1 + \tilde{M}_{o,d,u^d})$  as the dependent (so-called scaled OLS) allows us to solve the selection problem due to the drop of the zero observations. Nevertheless, the scaled OLS estimation technique would give inconsistent estimates in the presence of heteroskedasticity. Silva and Tenreyro (2006) show that Poisson regressions are robust to different patterns of heteroskedasticity. We follow this route in the subsequent estimation and use the Poisson estimates as the benchmark. However, our tables will report the scaled OLS estimates of equation (10) for robustness checks.

## 4.3 Dealing With Endogeneity Concerns

In the model of Section 2, tuition fees are exogenous and decided by university authorities independent of numbers of students or other characteristics. In reality, the exogenous nature

of fees in specification (10) is questionable on several grounds. First, fees might depend on the attractiveness of the university: successful universities attracting a large number of (foreign) students can easily raise the tuition fees compared with other universities. This leads to a reverse causality issue between student flows and fees. While the bilateral nature of  $N_{iju}$  mitigates this aspect, it is important to deal with the potential endogeneity of fees.<sup>13</sup>

On top of that, fees might be correlated with some unobserved characteristics of the university such as the quality of amenities on campus or in the hosting city. Another possibility is that universities set quotas for foreign students that are unknown to the econometrician. This can in turn lead to a quantity-price trade-off and induce a positive correlation between fees and quotas. The source endogeneity of tuition fees also calls for a specific treatment.

We deal with the endogeneity of fees by using a traditional IV approach. Basically, we use the public *vs.* private status of the university as an instrument of tuition fees, following a similar solution adopted in Beine et al. (2014) at the country level. In particular, we create and use a dummy variable that captures the status (private *vs.* public) of the university. The underlying assumption is that private universities have a higher control over tuition fees. They tend to increase fees not only because of the costs but also because they receive fewer subsidies. Furthermore, they are not constrained by the regulation in terms of the cap that applies to public universities. We should expect a positive correlation between the private status and the level of tuition fees. In terms of exclusion restriction, the underlying assumption is that foreign students should not have particular preferences for private or public universities on top of the quality of education, host capacity, cost of living and income at the destination area. This seems to be a reasonable assumption and is confirmed by examples of many successful public universities in the U.S. such as Berkeley or Michigan State university.<sup>14</sup>

## 5 Results

We first present the benchmark results. We then consider two robustness checks. We first conduct a new econometric procedure that account for possible deviations from the exact validity of the exclusion restriction in the IV estimation employing the methods of Conley et al. (2012). After this, in Section 5.2.2 we extend the baseline specification, including a variable that captures the existence of English teaching programs. Section 5.2.3 contains an additional robustness analysis.

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<sup>13</sup>Another way of looking at this endogeneity problem is contained in equation (9). In fact, the fee level ( $CS_{u^d}$ ) in each university is likely to be positively correlated with the *ex-ante* total foreign demand  $M_{d,u^d}$ , which is omitted from equation (10).

<sup>14</sup>In a robustness check, we look at the impact of reasonable deviations from the exclusion restriction on the estimation of the effect of the fee. See Table 10 below.

## 5.1 Benchmark Regressions

The inclusion of origin-country fixed effects allows us to control for the role of the usual push factors (for instance, GDP at origin) as well as the influence of bilateral determinants (colonial links, proximity, languages). The estimates reported in Table 8 are in line with a traditional view of the role of fees and of quality.

Table 8: Benchmark Estimates of Determinants

Variables	Scaled OLS	Poisson	Scaled OLS	Poisson
Fees	-0.082*** (0.01)	-0.174** (0.06)	-0.085*** (0,01)	-0.167** (0.06)
Cost of living	0.046 (0.06)	-0.625 (0.41)	-0.011 (0,06)	-0.741 (0.41)
Quality (ranking)	0.080*** (0.01)	0.143*** (0.02)	-	-
Quality (score)	-	-	0.114*** (0.01)	0.234*** (0.04)
Host capacity	0.156*** (0.01)	0.552*** (0.06)	0.162*** (0.01)	0.560*** (0.06)
Income	0.625*** (0.03)	1.585*** (0.16)	0.656*** (0.03)	1.612*** (0.16)
Origin FE	Yes	Yes	Yes	Yes
$R^2$	0.569	-	0.568	-
Pseudo $R^2$	-	0.743	-	0.744
Nber Obs	11928	11928	11928	11928

\*  $p < 0.05$  , \*\*  $p < 0.01$  , \*\*\*  $p < 0.001$

In particular, both types of estimation techniques deliver a negative and significant role for fees in the choice of a university, in line with the view that fees are part of the cost function of foreign education. Estimates vary little with respect to the two quality indexes. Nevertheless, a couple of comments are in order. First, while fees appear to have a negative role, failure to account for their possible endogeneity leads us to take these results with caution. Second, while the benchmark results suggest significant and intuitive roles for fees, the quality of the university, host capacity and the expected income in the area, we fail to find any evidence of a role for the cost of living. Since all estimates are potentially biased by the presence of endogenous fees, it is also important to check whether this result survives after an explicit treatment of endogeneity through IV estimates. These are reported in Table 9.

The estimates of Table 9 provide interesting insights. First, the use of instrumental variable estimation leads to a significant correction in the estimate of the influence of tuition fees. Endogeneity of fees might be due either to reverse causality (that is, attractive universities are more likely to charge higher fees) or to some positive correlation of fees with

unobserved factors of attractiveness (for example, universities with better amenities tend to charge higher fees). In both cases, this results in a positive correlation between fees and the error term of model (10), resulting in an upward biased estimate of the impact of tuition fees. A comparison of tables 8 and 9 shows that the use of instrumentation corrects the bias in the expected direction, with a more negative impact of fees on the university choice. This holds for both estimation techniques.

Table 9: Instrumental Variable Estimates of Determinants

Variables	Scaled IV	Poisson IV	Scaled IV	Poisson IV
Fees	-0.246*** (0.02)	-0.580*** (0.12)	-0.248*** (0.02)	-0.543*** (0.12)
Cost of living	-0.132* (0.06)	-1.419** (0.47)	-0.191** (0.06)	-1.410** (0.45)
Quality=ranking	0.081*** (0.01)	0.153*** (0.02)	-	-
Quality=score	-	-	0.119*** (0.01)	0.250*** (0.06)
Host capacity	0.128*** (0.01)	0.483*** (0.06)	0.133*** (0.01)	0.501*** (0.06)
Income	0.878*** (0.04)	2.211*** (0.25)	0.908*** (0.04)	2.166*** (0.24)
Origin FE	yes	yes	yes	yes
$R^2$	0.562	-	0.560	-
$F$ first stage	5014.4	-	5057.6	-
Nber Obs	11928	11928	11928	11928

\*  $p < 0.05$  , \*\*  $p < 0.01$  , \*\*\*  $p < 0.001$

Instrument: dummy variable indicating private institution.

Second, the IV results lead to a significant change in all the estimates of the determinants of the choice of university except for quality. Correcting the impact of fees could suggest that the non-IV Poisson estimate tends to overestimate the true impact or, in other words, underestimate the impact in absolute terms. Such a bias is consistent with, for instance, a positive correlation between fees and unobserved amenities. It is also consistent with a phenomenon of reverse causality (attractive universities are more expensive). The IV estimates of (10) support the role of all possible determinants of the model, suggesting that the choice of a particular university results from a complex assessment of benefits and costs as outlined in the theoretical RUM framework of Section 2. Interestingly, the estimates suggest that foreign students explicitly take into account the cost of the living and the expected income for the city of destination. The estimated elasticity suggests that a 10 per cent increase in the tuition fee tends to decrease the average bilateral flow to that university by about 5.5 per cent.

## 5.2 Robustness checks

### 5.2.1 Deviations From the Exclusion Restriction

The exclusion restriction of our instrumental variable might be subject to discussion. While we control for a set of determinants such as host capacity and quality, it could be that some foreign students take into account the status of the university when choosing a location. For instance, it could be that foreign students believe that private universities are better organized and provide better services for students in terms of advice, personal tutoring and other aids. It could also be that students believe private universities are more accountable to students for the quality of teaching. The greater attractiveness of private institutions seems to be the prevailing dominant view. Nevertheless, this view is not the only one. For instance, it might be expected that there is a higher recognition of degrees conferred by public universities, suggesting that the private status of some institutions might deter more than attract some students. In that case, there might be a positive or negative correlation of our status variable and the error term of equation (10), invalidating the exclusion restriction of the IV procedure.

To cope with such a concern, we conduct a new econometric procedure introduced by Conley et al. (2012) that accounts for possible deviations from the exclusion restriction. The idea is to consider the parameter capturing that restriction (the coefficient of the instrumental variable in the structural equation) as a random parameter drawn for a given distribution. The procedure allows for possible means different from zero, that is, for asymmetric deviations from the exclusion restrictions. (See Conley et al. (2012) for details.)<sup>15</sup> We consider two alternative procedures. The first one, named "union of confidence interval" (UCI), provides an alternative IV estimation assuming only a support for the exclusion parameter. The other one, called "local to Zero estimation", assumes a normal distribution with a given mean and standard deviation. Table (10) reports the results of the UCI procedure.<sup>16</sup>

Table 10 focuses on the estimation of the elasticity of foreign students to tuition fees for different values in the range of possible values taken by the key parameters capturing the deviation from the exclusion restriction.<sup>17</sup> The higher the range of admissible values, the less precise the estimated coefficient. Symmetric ranges around zero correspond to an agnostic view of the possible deviation of the exclusion restriction of the status of the university as an instrument. A range of positive (negative) values corresponds to the view that foreign students value private Italian universities more (less).

Results of Table 10 suggest that the negative and significant elasticity of tuition fees in the traditional IV estimation is robust to deviations from the exclusion restriction. The significance level drops below the 5 per cent level only for values of the parameter over

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<sup>15</sup>Note that this procedure is particularly appealing in our context since it applies to situations in which the instrument is strong.

<sup>16</sup>The results of the Local to Zero estimation yields similar conclusions and can be obtained upon request.

<sup>17</sup>The other estimates of equation (10) are not reported here due to space restrictions but are available upon requests. In general, they are unaffected by the alternative procedure compared with the benchmark estimations.

Table 10: Estimated Impact of Tuition Fees With Plausibly Endogenous Instrument.

(1)	(2)	(3)	(4)	(5)
min deviation	max deviation	estimate	std. deviation	t-ratio
Symmetric intervals				
-0.1	0.1	-0.248***	0.057	-4.36
-0.2	0.2	-0.248***	0.096	-2.59
-0.3	0.3	-0.248*	0.134	-1.85
Asymmetric intervals				
-0.3	0	-0.134*	0.076	-1.77
-0.2	0	-0.172***	0.057	-3.03
0	0.2	-0.324***	0.057	-5.67
0	0.3	-0.362***	0.076	-4.73

Estimated equation: equation (10). Instrument: status (private/public) of university.

Estimation method: union of confidence intervals (Conley et al. (2012)).

Columns (1) and (2) provide the minimum and maximum values of the parameter capturing the deviation from the exclusion restriction.

Column (3) provides the mean estimate of the fee elasticity.

Column (4) provides the standard deviation of the estimate.

0.3 in absolute terms. This means that, even if the private status of the university deters or attracts (on average) less than 0.3 per cent of foreign students coming from each origin country, our IV estimates support a negative effect of tuition fees. Above that value, our estimates become less significant, albeit still negative at a 10 per cent significance level. The bottom panel of Table 10 also reports results obtained with asymmetric intervals of values of the deviation parameter. By restricting the range of possible deviations, the estimation of the effect becomes slightly more precise. Also, accounting for asymmetry allows us to issue a different point estimate of the impact of tuition fees. The results support the negative impact of tuition fees. Interestingly, our estimations show that if foreign students are more attracted by private Italian universities (which seems the prevailing view), the impact of tuition fees becomes even *more* negative.

### 5.2.2 Accounting for English-Teaching Programs

One concern related to the previous specification is that it neglects the existence of teaching programs provided in English at the destination university. Given the importance of English as an international language, the existence of such programs can be a determinant for foreign students in their location and enrollment choice.<sup>18</sup> Furthermore, it is possible that universities with English teaching programs can display characteristics different from other universities, prompting some correlation with other covariates such as the quality or the fees.

<sup>18</sup>Interestingly, Kahanec and Králiková (2011) find that the availability of English teaching programs acts as a pull factor.



If it is the case, the previous estimates might be biased.<sup>19</sup>

To address such a concern, we extend specification (10) by including in the set of covariates a dummy variable capturing the availability of English teaching programs at the university level. This dummy variable, labeled *EngDummy*, takes a value equal to 1 if the university  $u$  provided at least one bachelor or masters program in English for the academic year 2011-2012 and 0 otherwise.<sup>20</sup> According to this data source, 39 Italian universities were providing at least one program taught in English during the academic year 2011-2012.

Table 11 reports the results obtained using scaled OLS and Poisson. Table 12 reports the same results with IV estimation, instrumenting the tuition fees as before.

Table 11: Accounting for the Availability of English Teaching Programs

Variables	Scaled OLS	Poisson	Scaled OLS	Poisson
Fees	-0.085*** (0.01)	-0.200** (0.06)	-0.089*** (0.01)	-0.201** (0.06)
Cost of living	0.014 (0.06)	-0.743 (0.42)	-0.011 (0.06)	-0.865 * (0.41)
Quality (ranking)	0.079*** (0.01)	0.126*** (0.02)	- -	- -
Quality (score)	- -	- -	0.114*** (0.01)	0.225*** (0.04)
Host capacity	0.148*** (0.01)	0.527*** (0.06)	0.152*** (0.01)	0.513*** (0.06)
Income	0.622*** (0.03)	1.583*** (0.16)	0.652*** (0.03)	1.603*** (0.16)
EngDummy	0.049*** (0.01)	0.345*** (0.09)	0.057*** (0.01)	0.382*** (0.09)
Origin FE	yes	yes	yes	yes
$R^2$	0.570	-	0.568	-
Pseudo $R^2$	-	0.746	-	0.747
Nber Obs	11928	11928	11928	11928

\*  $p < 0.05$  , \*\*  $p < 0.01$  , \*\*\*  $p < 0.001$

Several comments are in order after comparing the results of tables 11 and 12 with those of the benchmark regressions (tables 8 and 9). First, the new results turn out to be slightly different, without changing any main conclusion regarding the impact of the fees and the other determinants. In this respect, the results are unchanged. Second, the availability of English teaching programs acts as a pull factor for foreign students in Italy. Third, the inclusion of this variable corrects the estimates in the expected direction. In particular,

<sup>19</sup>Note that, if the correlation between availability of English teaching courses is positively correlated with either education quality or tuition fees, this would lead to upward biased coefficients.

<sup>20</sup>The information is retrieved from the website of the Conference of Italian University Rectors (Fondazione Crui). See [https://www.crui.it/images/documenti/2012/courses\\_english.pdf](https://www.crui.it/images/documenti/2012/courses_english.pdf).

the coefficient of fees and quality tend to decrease in all regressions, suggesting that the existence of English teaching programs is positively correlated with the quality and tuition fees prevailing in the university. Nevertheless, the correction remains somewhat modest, which suggests that the bias (if any) from omitting this variable is rather small.

Table 12: IV Estimates Accounting for the Availability of English Teaching Programs

Variables	Scaled IV	Poisson IV	Scaled IV	Poisson IV
Fees	-0.261*** (0.02)	-0.666*** (0.12)	-0.263*** (0.02)	-0.626*** (0.12)
Cost of living	-0.188** (0.06)	-1.806*** (0.52)	-0.252*** (0.06)	-1.756*** (0.49)
Quality=ranking	0.080*** (0.01)	0.137*** (0.02)	- -	- -
Quality=score	- -	- -	0.118*** (0.01)	0.242*** (0.04)
Host capacity	0.114*** (0.01)	0.446*** (0.06)	0.117*** (0.01)	0.437*** (0.06)
Income	0.888*** (0.04)	2.365*** (0.28)	0.916*** (0.04)	2.282*** (0.27)
EngDummy	0.072*** (0.01)	0.364*** (0.09)	0.080*** (0.01)	0.412*** (0.09)
Origin FE	yes	yes	yes	yes
$R^2$	0.561	-	0.560	-
$F$ first stage	5537	5560	-	-
Robust Score	145	146.3	-	-
Robust Regression	148	149.6	-	-
Nber Obs	11928	11928	11928	11928

\*  $p < 0.05$  , \*\*  $p < 0.01$  , \*\*\*  $p < 0.001$

Instrument: dummy variable indicating private *vs.* public institution.

### 5.2.3 Scaled Regressions

Another concern related to model (10) is that the model does not perfectly match the idea of the multinomial logit defined in the theoretical model (see Section 2). In particular, in a multinomial logit set-up, one increase in the attractiveness of a given university proportionally decreases the attractiveness of the other ones. If, for example, the ranking of La sapienza tends to increase, this should lead both to a larger inflow of foreign students to La Sapienza and to, say, a decrease in the foreign students intake in Tor Vergata (another university in Roma of about the same quality). The same holds true for the other covariates, including tuition fees.

To deal with this, we change the estimated specification (10) by scaling all variables by a reference level. The reference level is chosen at the dyadic level, that is, it varies across

each pair and is specific to each origin country. We scale all variables in the specification by the level prevailing at the university at the destination that hosts the greatest number of students from origin country  $o$ . In practice, for each origin country  $o$ , we determine the university that hosted the largest number of international students during the academic year 2011-2012. This variable is labeled by  $(u_d)^*$ .<sup>21</sup>

The extended model that we consider takes the following form:

$$\left( \ln \left( \frac{N_{u_d}}{N_{(u_d)^*}} \right) \right) = \alpha + \alpha_d + \beta_1 * \ln \left( \frac{fees_{u_d}}{fees_{(u_d)^*}} \right) + \beta_2 * \ln \left( \frac{livingcost_{u_d}}{livingcost_{(u_d)^*}} \right) + \beta_3 * \ln \left( \frac{quality_{u_d}}{quality_{(u_d)^*}} \right) + \beta_4 * \ln \left( \frac{hostcapacity_{u_d}}{hostcapacity_{(u_d)^*}} \right) + \beta_5 * \ln \left( \frac{expreturn_{u_d}}{expreturn_{(u_d)^*}} \right) + \epsilon_{d,u_d} \quad (11)$$

Table 13 presents the results . It's directly comparable with the ones reporting the benchmark regressions, that is, tables 8 and 9.

Table 13: Scaled Estimations

Variables	Benchmark Estimates		IV	
	Scaled OLS	Poisson	Scaled OLS	Poisson
Fees <sub>(ui)*</sub>	-0.025*** (0.00)	-0.106* (0.04)	-0.066*** (0.01)	-0.167** (0.06)
Cost of living <sub>(ui)*</sub>	-0.013 (0.02)	0.181 (0.24)	-0.058 *** (0.02)	-0.741 (0.41)
Quality <sub>(ui)*</sub>	0.035*** (0.00)	0.140*** (0.02)	0.037*** (0.00)	0.140*** (0.02)
Host capacity <sub>(ui)*</sub>	0.046*** (0.00)	0.560*** (0.04)	0.038*** (0.00)	0.527*** (0.04)
Income <sub>(ui)*</sub>	0.200*** (0.01)	1.517*** (0.10)	0.264*** (0.01)	1.812*** (0.13)
Origin FE	yes	yes	yes	yes
R <sup>2</sup>	0.393	-	0.385	-
Pseudo R <sup>2</sup>	-	0.174	-	-
Nber Obs	11857	11857	11928	11928

\*  $p < 0.05$  , \*\*  $p < 0.01$  , \*\*\*  $p < 0.001$

Columns 2 and 3 of Table 13 report the baseline estimates of model (11). Columns 4 and 5 contain the results obtained applying the IV strategy. In all estimations, we use the "Score" as indicator of quality.<sup>22</sup> Table 13 provides additional evidence of the negative

<sup>21</sup>When the largest flow from a given country of origin is shared among several universities, we scale each covariate by the average values among these universities.

<sup>22</sup>Estimations with the "Ranking" as a proxy of university quality are available upon request and give similar results.

impact of fees on international student inflows. Also, the estimates of the other covariates almost perfectly mirror the results obtained when considering the baseline model (10).

## 6 Conclusions

This paper revisits the issue of the determinants of student migration. In contrast to the existing literature that has focused up to now on country-specific factors, we look at the determinants at the university level. This allows us to address specifically the role of important factors such as tuition fees or the quality of the university. The impact of those factors is difficult to grasp in country-level studies due to the high heterogeneity among institutions in many countries. While the analysis considers a set of university-specific factors, we pay special attention to the role of tuition fees in the inclination of foreign students to choose a specific university. So far, the existing literature has obtained mixed results concerning the impact of tuition fees.

We build our empirical investigation on a nested logit model capturing the decision to choose a specific university abroad. We focus on the last decision nest, that is, the choice of a specific university for a student, conditional on going abroad and conditional on choosing a specific destination country. This choice is constrained by binding capacity constraints on the side of hosting universities. Our model allows the identification of the main factors such as tuition fees, quality of the university, host capacity, expected return on education at destination and cost of living. We estimate the role of those factors, using data at the university level for foreign students in Italy. One of the important issues at the econometric level is the endogeneity of fees. We use a classical IV approach based on the status (private *vs.* public) of the universities.

Our analysis generates interesting and new findings. First, we find evidence of the negative role of a university's tuition fees on the flow of students choosing to study in that university. The typical estimate implies that an increase in tuition fees of 10 per cent would reduce the bilateral flow by about 5 per cent, suggesting a non-negligible effect in terms of magnitude. Surprisingly, this negative and significant role is new in the literature. We stress the importance of dealing with the endogeneity of tuition fees. Failure to account for endogeneity results in a positive and significant result. While such a positive impact is not to be ruled out at a theoretical level, it is nevertheless difficult to rationalize in practice. The negative impact of fees is found to be robust to a set of robustness checks, including the role of English teaching programs, deviations from the exclusion restriction in the IV procedure and alternative specification consistent with the multinomial logit model. While tuition fees are found to have some influence on the location of foreign students, our analysis also emphasizes and confirms the role of other important factors. We find support in favor of the role of the university's quality. Also, the expected return to education after graduation is found to be important. This last result is in line with the implications of the migration model of foreign education.

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## A Summary Data

Table 14: Summary Table of Main Data

Variable	Term in (9)	Definition	Source
<b>International Students</b>	$\tilde{M}_{o,d,u^d}$	Number of foreign students coming from country $i$ and enrolled in university $u$	MIUR.
<b>Fees</b>	$CS_{u^d}$	Average fees charged by university $u$	Newspaper <i>il Sole24 ore</i> .
<b>Quality</b>	$Q_{u^d}$ (ranking)	Quality of university $u$ based on Top 500 ranking	Top 500 Shanghai Ranking ARWU.
<b>Host Capacity</b>	$EC_{u^d}$	Total number of students enrolled at university $u$	MIUR.
<b>Cost of living</b>	$CL_{u^d}$	Cost of Living in city/district $j$ , where institution $u$ is located	Numbeoo dataset.
<b>Expected return</b>	$w_{u^d}$	GDP per capita in the district where university $u$ is located	GDP at NUTS 3 level, Eurostat.