

## PROJECT SUMMARY

The proposal is to renew our NSF Grant that expires in June 2002. The initial proposal was to study some of the economic effects of merit-based financial aid by examining Georgia's HOPE Scholarship, focusing on three categories of questions: What student, family, and school characteristics are related to scholarship retention? How and to what extent does HOPE affect college enrollment decisions? How and to what extent do the HOPE incentives affect students' academic choices during their college careers? This proposal is for extending the initial research, concentrating on the relationship between merit aid and sorting in higher education.

Started in 1993, Georgia's HOPE ("Helping Outstanding Pupils Educationally") Scholarship is the largest and most prominent merit-aid program in the US. As of June 2001, over \$1.2 billion has been distributed to over 525,000 students through HOPE. In size and scope, HOPE is now roughly twice as large as the federal Pell Grant program in Georgia. To qualify for the scholarship, which pays the tuition, fees and book expenses of Georgia residents who attend state universities, high-school students must graduate with a "B" average. There is no income cap. For HOPE Scholars in degree-granting public institutions, the program covers tuition, HOPE-approved mandatory fees and a book allowance. The value of the award was about \$3500 for the 2000-01 academic year. HOPE Scholars in private, degree-granting institutions receive a standard award of \$3000 per academic year toward tuition. Once in college, a student must maintain a "B" average with a minimum number of credits to retain the award.

Our work on the enrollment-rate effects of the HOPE Scholarship serve as the starting point for this proposal. The relative price changes induced by HOPE-style aid establish important enrollment-decision margins: in-state-out-of-state, 2-year-4-year, labor-market-2-year and labor-market-4-year. The movements along these margins raise important questions about the effects of merit aid on student sorting and college stratification by ability, race and gender.

We will analyze HOPE's influence on sorting using Peterson's Undergraduate Database (one of the most comprehensive sources of information on US institutions of higher education available and covers the period 1983-2001) and UGA student-record database (which contains admission, financial aid and transcript data for all individuals who enrolled in the university from 1988-98) collected under our current NSF grant. The Peterson's data will allow us to contrast the student quality of Georgia colleges with comparable sets of institutions in other states, and allow the examination of changes in college-specific quality distributions within Georgia. The UGA student-record data will provide a detailed picture of changes in the ability distribution of first-time freshmen at the state's flagship university.

Individual sorting is a pervasive fact of life. Resources early in life determine in large part the level and quality of a person's postsecondary education. From the perspective of sorting, parental resources determine where you live and where begin your schooling, which enhance a child's college prospects. A college degree, in turn, improves labor and marriage market opportunities. Thus, to the extent merit is correlated with household income, programs like the HOPE Scholarship reinforce the effects of sorting patterns established prior to the college enrollment decision.