

A Master's Degree is Still Worth It

There is a direct financial incentive for an individual to pursue a master's degree from a California State University after receiving a bachelor's degree. The cost-benefit analysis conducted on the following pages yield a net present value for receiving a MA/MS degree at **\$61,823** with a present benefit to cost ratio of **1.83**.

This analysis includes a number of assumptions.

- MA/MS candidate attends classes full-time for 2 years and completes 20 semester units each year.
- A MS/MA degree received at a CSU institution entitles the recipient to the same level of income as enjoyed by other U.S. residents holding MA/MS degrees as averaged in U.S. Census data.
- The candidate will remain at her/his current residence.
- The ability factor of an MA/MS degree recipient is 10% relative to a BA/BS holder. That is, the income of an advanced degree holder is partly due to the higher intellectual ability that allows them to receive an MA/MS. To control for this, a master's income is discounted by 10%.
- A nominal interest rate of 8% and static inflation rate of 3%.
- Enrollment at age 22 and retirement at age 65.
- The benefits included in the analysis are increased earnings. The costs are the total of the general cost of the education and foregone revenue while enrolled.

Notes on the data.

Income data is gleaned from survey data as provided by www.census.gov. Income for both bachelor and master earnings were broken out by age brackets that had been averaged across all races.

Cost data is based on figures for the 2006-2007 academic year at San Francisco State University from that institution's financial website (see following pages for specific links). The amount of the state subsidy is derived from the costs associated with out of state tuition. For a non-resident, SFSU charges an additional \$399 per unit. If a student must take 20 units a year to graduate in two years, then the additional cost for the non-resident is nearly \$8,000 annually. Because non-residents do not pay income taxes to the State of California, it is assumed that the non-resident fee represents the cost per unit that state income taxes subsidize the education costs at CSU institutions. Therefore, the state subsidy is \$8,000 per year.