

Cornell University
ILR School

Cornell University ILR School
DigitalCommons@ILR

Articles and Chapters

ILR Collection

Winter 2006


Crafting a Class: The Trade-Off Between Merit Scholarships and Enrolling Lower-Income Students

Ronald G. Ehrenberg
Cornell University, rge2@cornell.edu

Liang Zhang
University of Minnesota

Jared M. Levin
Cornell University

Follow this and additional works at: <http://digitalcommons.ilr.cornell.edu/articles>

 Part of the [Education Economics Commons](#), [Higher Education Commons](#), [Labor Economics Commons](#), and the [Labor Relations Commons](#)

Thank you for downloading an article from DigitalCommons@ILR.

[Support this valuable resource today!](#)

This Article is brought to you for free and open access by the ILR Collection at DigitalCommons@ILR. It has been accepted for inclusion in Articles and Chapters by an authorized administrator of DigitalCommons@ILR. For more information, please contact hlmdigital@cornell.edu.

Crafting a Class: The Trade-Off Between Merit Scholarships and Enrolling Lower-Income Students

Abstract

[Excerpt] It is well known that test scores are correlated with students' socio-economic backgrounds. Hence, to the extent that colleges are successful in "buying" higher test-score students, one should expect that their enrollment of students from families in the lower tails of the family income distribution should decline. However, somewhat surprisingly, there have been no efforts to test if this is occurring.

Our paper presents such a test. While institutional-level data on the dollar amounts of merit scholarships offered by colleges and universities are not available, data are available on the number of National Merit Scholarship (NMS) winners attending an institution on scholarships that have been funded by the institution itself, rather than the National Merit Scholarship Corporation (NMSC). These institutional scholarships are awarded to high-test-score students only if they attend the institution. Our research strategy was to estimate whether an increase in the number of recipients of these scholarships at an institution is associated with a decline in the number of students from lower- and lower-middle-income families attending the institution, while holding other factors constant. We measured the number of these students by the number of Pell Grant recipients attending the institution.

The second section of our paper briefly describes the National Merit Scholarship and the federal Pell Grant programs. Next, we describe our analytical approach, followed by our empirical findings and some brief concluding remarks.

Keywords

merit scholarships, test scores, higher education, family income

Disciplines

Education Economics | Higher Education | Labor Economics | Labor Relations

Comments

Suggested Citation

Ehrenberg, R. G., Zhang, L., & Levin, J. M. (2006). Crafting a class: The trade-off between merit scholarships and enrolling lower-income students [Electronic version]. *The Review of Higher Education*, 29(2), 195-211.

Required Publisher's Statement

© 2006 Association for the Study of Higher Education. This article first appeared in *The Review of Higher Education*, vol.29, no.2 (Winter 2006), pp. 195-211. Reprinted with permission by [The Johns Hopkins University Press](#).

Crafting a Class: The Trade-Off between Merit Scholarships and Enrolling Lower-Income Students

Ronald G. Ehrenberg, Liang Zhang, and Jared M. Levin

INTRODUCTION

One of the strengths of the American higher education system is its competitive nature. Colleges and universities compete for faculty, for students, for external research funding and on the athletic fields. Given the wide publicity that the *U.S. News & World Reports* annual rankings of colleges and universities receive and the importance of student selectivity in these rankings, American colleges and universities are increasingly using merit aid as a vehicle to attract students with higher test scores and thus to improve

RONALD G. EHRENBERG is the Irving M. Ives Professor of Industrial and Labor Relations and Economics at Cornell University, Director of the Cornell Higher Education Research Institute (CHERI) and a research associate at the National Bureau of Economic Research. LIANG ZHANG is an Assistant Professor of Higher Education at the University of Minnesota and a faculty associate at CHERI. JARED M. LEVIN is an undergraduate research assistant at CHERI. CHERI is financially supported by the Andrew W. Mellon Foundation, the Atlantic Philanthropies (USA), Inc., and the TIAA-CREF Institute, and the authors express gratitude for their support. However, the views expressed in this paper are entirely the authors' own. Address queries to Ronald G. Ehrenberg, Director, Cornell Higher Education Research Institute, ILR-Cornell University, 256 Ives Hall, Ithaca, NY 14853-3901; telephone: (607) 255-3026; fax: (607) 255-4496; email: Rge2@cornell.edu.

their rankings (McPherson & Schapiro, 1998, 2002; Duffy & Goldberg, 1998; Ehrenberg, forthcoming).

It is well known that test scores are correlated with students' socio-economic backgrounds. Hence, to the extent that colleges are successful in "buying" higher test-score students, one should expect that their enrollment of students from families in the lower tails of the family income distribution should decline. However, somewhat surprisingly, there have been no efforts to test if this is occurring.

Our paper presents such a test. While institutional-level data on the dollar amounts of merit scholarships offered by colleges and universities are not available, data are available on the number of National Merit Scholarship (NMS) winners attending an institution on scholarships that have been funded by the institution itself, rather than the National Merit Scholarship Corporation (NMSC). These institutional scholarships are awarded to high-test-score students only if they attend the institution. Our research strategy was to estimate whether an increase in the number of recipients of these scholarships at an institution is associated with a decline in the number of students from lower- and lower-middle-income families attending the institution, while holding other factors constant. We measured the number of these students by the number of Pell Grant recipients attending the institution.

The second section of our paper briefly describes the National Merit Scholarship and the federal Pell Grant programs. Next, we describe our analytical approach, followed by our empirical findings and some brief concluding remarks.

THE NATIONAL MERIT SCHOLARSHIP AND PELL GRANT PROGRAMS

The National Merit Scholarship Program (www.nationalmerit.org) began in 1955. High school students qualify for awards based on their scores on the PSAT examination, high school records, letters of recommendation, information about the students' activities and leadership, and personal essays.

Three types of NMS awards exist. The first is a set of scholarships awarded to top students independent of family financial circumstances by the NMSC itself; these awards currently are \$2,500 scholarships for one year of college at only institutions to which the winner has been admitted. The second is a set of scholarships awarded by corporations to top students who are employees of the corporations, children of employees, residents of a community in which the corporations have operations, or students pursuing college majors or careers in which the corporations have a special interest. These scholarships may either be for one year of study or can be renewable for four years. Again there is no restriction on the college or university that the student may attend.

The final type, and the focus of our attention, is the NMS awards funded by colleges and universities. Finalists in the NMS competition notify the

TABLE 1
NUMBER OF TOTAL AND INSTITUTION-FUNDED
NATIONAL MERIT SCHOLARSHIP STUDENTS^a

Year	All Institutions			Top 100 Institutions ^b		
	Total	Institution Funded	Percent Institution Funded	Total	Institution Funded	Percent Institution Funded
1983	5566	2,382	42.8	4330	1796	41.5
1987	6127	2,976	48.6	4844	2214	45.7
1991	6552	3,463	52.9	4982	2489	50.0
1995	7030	3,975	56.5	5496	2951	53.7
1999	8081	4,582	56.7	6594	3660	55.5
2003	8254	4,670	56.6	6965	3856	55.4

^a The National Merit Scholarship Corporation provided data on the number of National Merit Scholarship students by institution for 1983, 1984, 1985, 1986, 1987, 1991, 1995, 1999, and 2003. The *Chronicle of Higher Education* publishes the top X institutions (where X varies across years from 30 to 100) that enroll the most National Merit Scholarship students in many years. Because of the changing coverage, we have not used the *Chronicle's* data.

^b We determined the top 100 institutions by the total number of merit NMS students in an institution in 2003; these institutions are not necessarily the top 100 in earlier years. These institutions enroll about 80% of all NMS (ranging from 78% in 1983 to 84% in 2003).

NMSC of their first-choice college or university, and the NSMC in turn notifies the institution. Each institution that offers this type of award makes awards to a subset of the finalists who have indicated that they wish to attend the institution. Crucially, an award is cancelled if the student decides not to attend the institution. Hence, these awards are contingent on attending the institution.

These college- and university-funded awards are renewable for up to four years of undergraduate study and provide stipends that range from \$500 to \$2,000 a year. Awards of this amount pale when compared to the \$30,000 tuition and fee levels that are now common at the nation's most selective private colleges and universities. However, previous research has indicated that offering a top student a named scholarship enhances the likelihood that a student will attend an institution (Avery & Hoxby, 2004). In addition, it is likely that institutions offering NMS awards will also offer additional merit aid to students; hence, the dollar amount of the NMS awards likely understates the amount of merit aid that the recipients receive from the institution.

Table 1 provides information on the total number of NMS awards and the number of these awards funded by colleges and universities, provided to

us by NMSC for selected academic years between 1983 and 2003. The total number of NMS awards grew from 5,566 in 1983 to 8,244 in 2003. As the third column indicates, the percentage of these awards funded by colleges and universities increased from 42.8% in 1983 to 56.5% in 1995 and has remained at about that percentage since then.

NMS awards are heavily concentrated among a small number of our nation's 3,500-plus colleges and universities. Our econometric research analyzes panel data for the 100 colleges and universities with the most new NMS winners attending them in 2003. The names of the institutions and their number of NMS winners in 2003 appear in the appendix. (The sample actually contains 103 institutions because of a tie for 100th place.)

These top 100 institutions enrolled about 84% of all of the NMS winners in 2003 with somewhat lower percentages in the earlier years.¹ Many of these institutions are among the small number of colleges and universities that still employ need-blind admissions and need-based financial aid policies. A number of them accordingly offer *no* college- and university-funded NMS awards. However, even in this group of 100 institutions, the percentage of NMS awards funded by the institutions themselves rose from 41.5% in 1983 to about 55.5% at the turn of the 21st century.

Table 2 provides information for each year during our sample period on the numbers of institution-funded and noninstitution-funded NMS students at these institutions at the 25th percentile, 50th percentile (median), 75th percentile, and mean institution in our top 100 sample. The total number of NMS students increases at each point in the distribution; this increase is at least partially due to the way the institutions were selected (top 100 in 2003). What stands out, however, is that virtually all of the growth in the number of NMS winners occurred in the institution-funded category. For example, the mean number of institutional funded awards in the sample rose from 17 in 1983 to 37 in 2003. As late as 1995–1996, the 25th percentile institution (in terms of total number of NMS awards in 2003) offered *no* institution-funded NMS awards. By 2003–2004, however, the 25th percentile institution in the group offered 12 institutionally funded NMS awards.

Our interest is in how the growth of merit scholarships has influenced the proportion of students from lower- and lower-middle-income families attending selective institutions. While the U.S. Department of Education does not collect institution-level data on the family income distribution of students, data on the number of Pell Grant recipients at each institution are collected annually.

¹The lower enrollment shares in earlier years are an artifact of how the panel was constructed. This occurs because there is some variation in the institutions that appear in the top 100 list from year to year.

TABLE 2
DISTRIBUTION OF NATIONAL MERIT SCHOLARSHIP STUDENTS AT THE TOP 100
INSTITUTIONS: BY SOURCE OF SPONSORSHIP

<i>Year</i>	<i>All</i>				<i>Institution Funded</i>				<i>Non-Institution Funded</i>			
	<i>25th</i>	<i>50th</i>	<i>75th</i>	<i>mean</i>	<i>25th</i>	<i>50th</i>	<i>75th</i>	<i>mean</i>	<i>25th</i>	<i>50th</i>	<i>75th</i>	<i>mean</i>
1983–84	12	24	47	42	0	5	20	17	5	10	29	25
1987–88	20	30	52	47	0	14	26	21	5	9	29	26
1991–92	20	32	55	48	0	16	34	24	6	12	24	24
1995–96	23	36	57	53	0	20	36	29	5	12	23	25
1999–00	28	41	85	64	6	25	41	36	6	15	31	28
2003–04	29	44	77	68	12	26	40	37	7	14	33	30

The Pell Grant program is the largest need-based financial aid program in the United States; it provided about \$12.6 billion dollars in funding to 5.1 million undergraduate students in 2003–2004 (*Trends*, 2004, tables 1, 3). Eligibility for Pell Grants for a dependent student is based on a dependent student's family income and wealth, the number of siblings in college, and the expected costs of attending the institution; for independent students, eligibility is based on the income of the student and his or her spouse. According to Neil Seftor and Sarah Turner (2002), throughout the 1990s, half of Pell Grant recipients were independent students, although this fraction is likely to be much lower in the selective institutions that are in our sample where most students are full-time students. Prior to 1993, awards were also constrained to be less than 60% of the costs of attending an institution. Some students who attended low-cost institutions were excluded from participating in the Pell Grant program for this reason.

Data from the 2002–2003 *Title IV/Federal Pell Grant Program End-of-Year Report* indicate that in that academic year, 87% of all Pell Grant recipients at four-year public institutions came from families with family incomes of \$40,000 or less; the comparable figure at four-year private institutions was 86.6% (2002–2003 *Title IV*, Table 2A). Hence, the share of Pell Grant recipients among an institution's undergraduate student body is a good proxy for the share of its students coming from lower- and lower-middle-income families. Jeffrey Tebbs and Sarah Turner (2005) caution that the Pell Grant recipient data refer to students attending an institution anytime during a year, while IPEDs enrollment data refer to a point of time in the fall. Hence, other factors held constant, if turnover of students is high at an institution during the year, the "share" of Pell Grant recipients at the institution will appear artificially high. We control for this problem in the empirical work that follows by including institutional fixed effects in our estimation models.

Table 3 presents information, by year, on the mean ratio of the number of Pell Grant recipients at an institution to the number of full-time undergraduates attending the institution for the 100 institutions in our sample during the 1983 to 2000 period. The column headed "unweighted" presents information on the average percentage across institution, while the column headed "weighted" is a weighted average, with the enrollments used as weights. These data suggest that the percentage of Pell Grant recipients among the undergraduate students at these institutions fluctuated but gradually increased during the period.²

²We caution the reader that part-time students attending at least half-time are eligible for Pell Grants. However, the 2002–2003 *Title IV/Federal Pell Grant Program End-of-Year Report* (Table 13) indicates that 86.9% of the Pell Grant recipients attending public four-year institutions and 87.8% of the Pell Grant recipients attending private four-year institutions were

TABLE 3
PERCENTAGE OF FULL-TIME UNDERGRADUATE STUDENTS
THAT ARE PELL GRANT RECIPIENTS AT THE TOP 100 INSTITUTIONS^a
(AS DEFINED IN TABLE 1)

<i>Year</i>	<i>Unweighted</i>	<i>Weighted</i>
1983	18.60	21.16
1984	18.32	21.02
1985	18.23	21.12
1986	15.94	18.67
1987	16.58	19.77
1988	19.50	23.14
1989	19.75	23.42
1990	19.34	23.21
1991	21.30	25.56
1992	22.64	27.32
1993	21.98	25.89
1994	22.05	26.01
1995	21.71	25.60
1996	21.72	25.75
1997	21.72	25.79
1998	21.95	26.24
1999 ^b	20.05	23.97
2000	19.22	23.19

^a The Pell Grant data are from the Federal Pell Grant Program administered by the Department of Education. We received data from the Department of Education for academic years 1983–1984 to 2003–2004 on the number of students receiving Pell Grants and total amount of Pell Grants received at each Title IV institution each year during the period. Data on the number of full-time undergraduates enrolled at each institution and the number of full-time first-time freshman at each institution are from Webcaspar (<http://caspar.nsf.gov>). The percentage of Pell Grant recipients at an institution in a year is 100 times the number of Pell Grant recipients at the institution in the year divided by the number of full-time undergraduates enrolled at the institution in a year.

^b Webcaspar did not provide 1999 enrollment data, so we used the average of the 1998 and 2000 figures for that year.

This increase tells us little about the impact of the growth of institutionally funded NMS at these institutions on the number of Pell Grant recipients at the institutions during the period; the share of Pell Grant recipients at these

full-time students that year. For the institutions in our sample, part-time students represent only 12.6% of all students, and using total undergraduate students in the denominator of our ratio does not change the trends reported above or any of the econometric results that follow. We also caution that only U.S. citizens and permanent residents are eligible for Pell Grants. Thus, if an institution enrolls a high fraction of foreign students, its Pell Grant ratio will, other factors held constant, appear low.

institutions will vary over time as the income distribution of the populations changes, as eligibility rules change, as maximum award levels change and as tuition levels at the institutions change. Hence, to analyze the impact of changes in the number of NMS recipients on the number of Pell Grant recipients, we must control for these other factors in our analyses.

ANALYTIC APPROACH

Our goal is to see how the number of institutionally financed new NMS winners (M_t) at an institution influence the number of Pell Grant recipients (P_t) at the institution, other factors being held constant. A problem that immediately presents itself is that the number of NMS winners refers to entering first-year students, while the number of Pell Grant recipients refers to all enrolled undergraduates. If we had data on the number of Pell Grant recipients who were first-year students at an institution, we would use this information and information on the number of new first-year students at the institution to construct the fraction of first-year students who were Pell Grant recipients at the institution and then estimate how changes in the number of NMS winners affected that ratio. However, Pell Grant data are not available at the institutional level by the year that the student is enrolled in college.

A solution to this problem is possible if we make some very strong and admittedly unrealistic assumptions. Specifically, if one is willing to assume for simplicity that all students at the institution enter as first-year students, that no students drop out before graduation, that students' Pell Grant eligibility does not change during the years they are enrolled in college, and that all students who graduate do so in four years, then the following relationship holds

$$(1) P_{it} = p_{it} + p_{it-1} + p_{it-2} + p_{it-3}.$$

Here p_{it} is the number of new first-year Pell Grant recipients who enroll at the institution in year t . Put simply, the total number of Pell Grant recipients at the institution in year t is the sum of the number of new first-year Pell grant recipients that enrolled at the institution in year t and in each of the three preceding years. If one writes down the equivalent expression for P_{it-1} and then subtracts it from P_{it} , one finds that

$$(2) P_{it} - P_{it-1} = p_{it} - p_{it-4}.$$

Given the assumptions that we have made, the difference between the number of Pell Grant recipients at an institution in year t and year $t-1$ is the difference between the numbers of first-year Pell Grant recipients in year t and year $t-4$. Hence, if we want to estimate how changes in the number of NMS influence changes in the number of Pell Grant recipients at the institution between years t and $t-1$, the correct change in the number of NMS win-

ners to use is the difference between M_t and M_{t-4} . So the dependent variable in our econometric analyses is based on one-year changes in the numbers of Pell Grant recipients, while our explanatory variable is based on four-year changes in the number of institutionally funded NMS winners.

Our empirical approach is to use our institutional-level panel data to estimate equations in which the one-year change in the ratio of the number of Pell Grant recipients to the number of full-time undergraduate students at an institution is specified as a linear function of the four-year change in the share of first-year full-time undergraduate students who receive institutionally financed NMS awards at the institution, institutional fixed effects, year fixed effects, and a random error term.

$$(3) (P_{it}/F_{it}) - (P_{it-1}/F_{it-1}) = a_0 + a_1 ((M_{it}/N_{it}) - (M_{it-4}/N_{it-4})) + u_i + v_t + e_{it}$$

Here F_{it} is the number of full-time enrolled undergraduates at institution i in year t , N_{it} is the number of full-time first-year students enrolled at institution i in year t , the a_0 and a_1 are parameters, the u_i are the institutional fixed effects, the v_t are the year fixed effects, and the e_{it} is a random error term. We include the institutional fixed effects in the model to control for institution-specific factors other than changes in the number of NMS award winners that might affect the change in the share of Pell Grant recipients at an institution. The year fixed effects are included to control for changes in national factors that might affect the share of Pell Grant recipients over time; these factors include changes in the distribution of family income of college-age students, changes in Pell Grant eligibility and generosity rules, and changes in Pell Grant funding levels.

The Pell Grant and NMS variables have each been deflated by a relevant size variable (total full-time undergraduate students or total full-time first year students) to control for changes in the size of each institution over time. Because part-time students enrolled for at least one-half of a normal full-time load are eligible to receive Pell Grants, in the empirical work in the next section, we also experiment with deflating the Pell grant and NMS variables by the total number of undergraduate students and the total number of first-year students at the institution.

Finally, we should note that our use of the one-year change in the number of Pell Grant recipients at an institution to measure the four-year change in the number of freshman Pell Grant recipients at an institution will probably be subject to substantial measurement error because of the set of strict assumptions that we had to make to derive this equivalence. However, if the measurement error is random, it will only increase the imprecision of our estimates; it will not bias the coefficient of the NMS variable.

EMPIRICAL FINDINGS

Table 4 summarizes our initial estimates of equation (3). The coefficients in the table are estimates of the parameter a_1 that come from four different model specifications. The first is based on the total number of new NMS recipients at an institution, regardless of the source of funding. The second is based on the number of institutionally funded NMS recipients. The third is based on the number of NMS recipients at the institution who are not funded by the institution. The final specification includes both the number of institutionally funded NMS and the number of NMS recipients funded in other ways as explanatory variables. For each specification, we present estimated coefficients for models that excluded and included year fixed effects; the estimates are not very sensitive to these variables. The panel used in this estimation uses four years of NMS recipient data (1983, 1987, 1991, and 1995) so we have three change observations for each institution in the sample.³

The coefficients in row 1 suggest that increasing the ratio of new NMS award winners, irrespective of source of funding, at an institution to the size of the institution's first-year full-time student body reduces the ratio of the institution's number of Pell Grant recipients to its full-time undergraduate enrollments. If the sizes of the institution's first-year full-time student body and its full-time undergraduate enrollments remain constant, the interpretation of the coefficients are that an increase in NMS awards of 10 at an institution is associated with a reduction in the number of Pell Grant recipients at the institution of about two.

When we restrict our attention to the number of institutional funded NMS, the magnitude of the reduction is doubled to a reduction of four Pell Grant recipients for every 10 additional institutionally funded NMS award winners, again holding constant full-time freshman and full-time total undergraduate enrollment levels. Indeed, when we restrict our attention to NMS winners not funded by the institution in row 3, an increase in the number of these winners at an institution has *no* statistically significant effect on the number of Pell Grant recipients at the institution. This finding is confirmed in the coefficients from the last model (row 4). When we included both the number of institutionally financed and other NMS award recipients as explanatory variables, only increases in the former have a negative effect on the number of Pell Grant recipients at the institution.

³The 2003 data could not be used because IPEDs data are not yet available for full-time, first-year students and total full-time undergraduate enrollment for 2002 or 2003. We exclude the 1999 data because IPED enrollment data were not collected for that year. However, we report below our efforts to include data for 1999 by using the average of the institution's enrollment in 1998 and 2000 as a proxy for its 1999 enrollment level.

TABLE 4
ESTIMATES OF THE IMPACT OF A CHANGE IN THE SHARE OF FRESHMEN AT AN INSTITUTION WHO ARE NATIONAL MERIT SCHOLARSHIP WINNERS ON THE CHANGE IN THE SHARE OF UNDERGRADUATES AT THE INSTITUTION WHO RECEIVE PELL GRANTS: FIXED EFFECTS MODELS
(t STATISTICS)

	<i>Share of Pell Grant Recipients</i> <i>Pell_t - Pell_{t-1}</i>	
(1) Share of Total Merit _t - Merit _{t-4}	-0.200 (-2.35)	-0.171 (-2.16)
(2) Share of Inst. Merit _t - Merit _{t-4}	-0.415 (-3.16)	-0.409 (-3.38)
(3) Share of Non-inst. Merit _t - Merit _{t-4}	-0.070 (-0.52)	-0.004 (-0.03)
(4) Share of Inst. Merit _t - Merit _{t-4}	-0.418 (-3.12)	-0.427 (-3.44)
Share of Non-inst. Merit _t - Merit _{t-4}	0.018 (0.14)	0.086 (0.69)
Year Fixed Effects Included	No	Yes

Put simply, in our sample of institutions, other factors held constant, including the total full-time undergraduate and first-year enrollment levels, offering more institutionally funded NMS awards is associated with fewer Pell Grant recipients attending the institution; and the magnitude of the reduction is roughly four fewer Pell Grant recipients for each 10 additional institutional NMS recipients enrolled at the institution.

Table 5 presents estimates of coefficients from the models in Table 4 that included year fixed effects, in which the models were estimated for various subgroups of our sample. In particular, we present estimates for the entire sample (the same as in table 4), for the top 80 institutions in terms of the number of Pell Grant recipients in 2003, for the top 60 institutions, for the top 40 institutions, for the top 20 institutions, and for the top 10 institutions. These analyses confirm that only the institutionally financed and awarded NMS adversely influence the number of Pell Grant recipients at an institution. However, the magnitude of this displacement effect varies by institution. In particular, the magnitude of the displacement effect increases as we move from the top 100 institutions, to the top 80, down to the top 10 (in terms of total number of Pell Grant recipients in 2003). It is at institutions with the largest number of Pell Grant recipients that the displacement of Pell Grant recipients by institutionally funded NMS recipients is the largest. Indeed, we cannot reject the hypothesis that, other factors held constant, at the top 10 institutions, every additional institution-

TABLE 5

ESTIMATES OF THE IMPACT OF A CHANGE IN THE SHARE OF FRESHMAN AT AN INSTITUTION THAT ARE NATIONAL MERIT SCHOLARSHIP WINNERS ON THE CHANGE IN THE SHARE OF UNDERGRADUATES AT THE INSTITUTION THAT RECEIVE PELL GRANTS: FIXED EFFECTS MODELS ESTIMATED SEPARATELY FOR DIFFERENT SAMPLES^a

	<i>Share of Pell Grant Recipients</i>		
	<i>Top 100</i>	<i>Pell_t - Pell_{t-1} Top 80</i>	<i>Top 60</i>
(1) Share of Total Merit _t - Merit _{t-4}	-0.171 (-2.16)	-0.176 (-1.91)	-0.172 (-1.63)
(2) Share of Inst. Merit _t - Merit _{t-4}	-0.409 (-3.38)	-0.420 (-3.00)	-0.436 (-2.69)
(3) Share of Non-inst. Merit _t - Merit _{t-4}	-0.004 (-0.03)	-0.001 (-0.01)	0.012 (0.07)
(4) Share of Inst. Merit _t - Merit _{t-4}	-0.427 (-3.44)	-0.442 (-3.08)	-0.465 (-2.78)
Share of Non-inst. Merit _t - Merit _{t-4}	0.086 (0.69)	0.102 (0.69)	0.122 (0.73)
Year Fixed Effects	Yes	Yes	Yes

	<i>Share of Pell Grant Recipients</i>		
	<i>Top 40</i>	<i>Pell_t - Pell_{t-1} Top 20</i>	<i>Top 10</i>
(1) Share of Total Merit _t - Merit _{t-4}	-0.288 (-2.50)	-0.397 (-2.14)	-0.699 (-2.74)
(2) Share of Inst. Merit _t - Merit _{t-4}	-0.551 (-3.25)	-0.824 (-2.93)	-1.471 (-4.06)
(3) Share of Non-inst. Merit _t - Merit _{t-4}	-0.130 (-0.65)	-0.209 (-0.62)	-0.392 (-0.85)
(4) Share of Inst. Merit _t - Merit _{t-4}	-0.558 (-3.16)	-0.867 (-2.84)	-1.465 (-3.77)
Share of Non-inst. Merit _t - Merit _{t-4}	0.031 (0.16)	0.129 (0.39)	-0.020 (-0.06)
Year Fixed Effects	Yes	Yes	Yes

^a Using panel data for 1983, 1987, 1991 and 1995

ally financed NMS recipient who attends the institution is associated with one fewer one Pell Grant recipient attending the institution. Four of the top 10 institutions are selective private universities that have no institutionally financed NMS recipients. Four of the other six are flagship public universities. (See Appendix.)

Several extensions of our analyses warrant brief mention. First, we replicated the analyses found in Table 5 separately for public and private institutions. The pattern of displacement effects for the private institutions was very similar to those for the entire sample; the coefficients of the institutional NMS variable were indistinguishable for each subgroup between private institutions and for the overall sample (reported in Table 5). In contrast, the displacement effects of increasing institutional NMS awards at public institutions were not significantly different from zero when we used the top 80 and top 100 samples. This finding suggests that, at public institutions that are not in the top institutions in 2005 in terms of total NMS recipients, we find no evidence that Pell Grant recipients are displaced by institutionally funded NMS recipients.

Second, we replicated the analyses found in Table 5, adding data for 1999 to the sample. Because IPEDS did not collect 1999 enrollment data, we estimated the 1999 number of full-time, first-year students for each institution by the average of the 1998 and 2000 values of this variable for each institution. We found that, even with the measurement error induced by this method, our estimates of the displacement effects of increasing the number of institutionally sponsored NMS recipients at an institution on the number of Pell Grant recipients at the institution were roughly of the same order of magnitude as those found in Table 5.

Third, part-time students attending an institution at least half-time are eligible to receive Pell Grants. While we do not know the number of part-time students at each institution each year who meet this criteria, we experimented with either including part-time students in the total enrollment figures that make up the denominator of the dependent variable in equation (3), including part-time, first-year students in the total first-year enrollment figure that make up the denominator of the explanatory variables in equation (3), or doing both simultaneously. None of these changes substantially affected the findings that we have reported so far.

Finally, we divided our sample into institutions that experienced increases in total full-time enrollments during both the 1987–1991 and 1991–1995 periods and all other institutions. We estimated variants of the models

that underlie Table 4 for both groups. We found that a strong statistically significant negative relationship exists between the change in the ratio of institutionally funded NMS to the number of full-time, first-year students and the change in the ratio of the number of Pell Grant recipients to the total full-time undergraduates enrolled at the institution only at the “growing” ones. Thus, the displacement of Pell Grant recipients by institutionally awarded NMS recipients in our sample appears to occur only at institutions with growing enrollments and largely reflects a change in the share of Pell Grant recipients in the student body, not always an absolute decline in the number of Pell grant recipients.

CONCLUSION

Our study has provided the evidence that, with other factors being held constant, an increase in the share of institutionally funded NMS students in a college or university’s first-year class is associated with a reduction in the share of Pell Grant recipients among the undergraduate student body at the institution. The magnitude of this displacement effect is largest at the institutions in our sample that enroll the greatest number of NMS students, and it occurs primarily in institutions whose enrollment is growing. We stress that we have observed this displacement effect, as we expected, only for institutionally sponsored NMS; we do not observe any displacement of Pell Grant recipients if an institution is able to increase the number of NMSC- or company-sponsored recipients that it enrolls. Those NMS winners who receive their awards regardless of their choice of institution do not appear to displace any student from lower-income families when they enroll at an institution.

While our research has focused only on NMS awards, it highlights the trade-off that may exist more broadly between using institutional grant aid to craft a more selective student body than would otherwise occur and using institutional grant aid to attract more students from families from the lower tail of the family income distribution. If selective institutions, especially public ones, are committed to serving students from all socioeconomic backgrounds, these institutions must track the share of their students who receive Pell grants and have as goals both socioeconomic diversity and student selectivity. Without concerted efforts by these institutions to increase the representation of students from lower- and lower-middle-income families in their student ranks, current inequalities in the distribution of students attending these institutions by family income class are likely to persist or worsen over time (Bowen, Kurzweil, & Tobin, 2005).

APPENDIX

COLLEGES AND UNIVERSITIES WITH THE
MOST FRESHMAN NMS IN 2003

<i>Rank</i>	<i>Institution</i>	<i>Total NMS</i>	<i>Sponsored by Institution</i>
1	Harvard University	37	80
2	University of Texas at Austin	258	201
3	Yale University	22	80
4	University of Florida	224	185
5	Stanford University	21	70
6	University of Chicago	182	148
7	Arizona State University	176	153
8	Rice University	173	102
9	University of Oklahoma	170	146
10	Princeton University	165	0
11	Washington University in St. Louis	162	125
12	University of Southern California	161	132
13	Massachusetts Institute of Technology	15	10
14	University of North Carolina at Chapel Hill	143	117
14	Vanderbilt University	143	103
16	Brigham Young University	140	97
17	Texas A&M University	137	103
18	New York University	136	115
19	University of California at Los Angeles	125	94
20	Duke University	10	30
21	University of Pennsylvania	10	10
22	Northwestern University	96	53
23	Ohio State University	93	77
23	Purdue University	93	75
25	Carleton College	79	62
26	Georgia Institute of Technology	77	62
27	University of Georgia	75	59
28	Iowa State University	69	55
29	University of California at Berkeley	67	0
30	Michigan State University	60	46
31	University of Arizona	59	47
31	University of Michigan at Ann Arbor	59	0
33	University of California at San Diego	56	38
34	Boston University	54	39
35	Case Western Reserve University	53	28
36	University of Nebraska at Lincoln	52	40
37	Macalaster College	51	48
38	California Institute of Technology	50	0
38	University of Kansas	50	40
40	Johns Hopkins University	49	32
40	University of Tulsa	49	38
40	University of Maryland at College Park	49	34
43	Brown University	47	0

Appendix, cont.

<i>Rank</i>	<i>Institution</i>	<i>Total NMS</i>	<i>Sponsored by Institution</i>
43	Columbia University	47	0
45	Oberlin College	46	38
45	Tulane University	46	36
47	Dartmouth College	45	0
47	University of Kentucky	45	33
47	University of South Carolina at Columbia	45	34
47	Wheaton College (Ill.)	45	40
51	University of Notre Dame	44	0
51	University of Washington	44	26
53	Harvey Mudd College	43	32
54	Kenyon College	41	33
54	Tufts University	41	37
56	Baylor University	40	31
56	Grinnell College	40	35
56	University of Arkansas at Fayetteville	40	33
56	University of Minnesota-Twin Cities	40	26
60	Cornell University	38	0
60	Emory University	38	27
62	George Washington University	37	32
62	Georgetown University	37	0
62	St. Olaf College	37	31
65	University of Alabama at Tuscaloosa	35	28
66	Rose-Hulman Institute of Technology	34	24
67	Clemson University	33	26
67	Miami University (Ohio)	33	26
67	University of Central Florida	33	28
67	University of Illinois at Urbana-Champaign	33	0
67	University of Virginia	33	0
72	Louisiana State University at Baton Rouge	32	25
72	University of Mississippi	32	24
74	Brandeis University	31	24
74	Furman University	31	29
74	University of Miami	31	22
74	University of Texas at Dallas	31	28
78	Carnegie Mellon University	29	0
78	North Carolina State University	29	21
80	Auburn University	28	20
80	University of Wisconsin at Madison	28	4
82	University of Houston	27	25
83	Williams College	26	0
84	Amherst College	25	0
84	University of California at Irvine	25	20
86	Mississippi State University	24	21
86	University of Tennessee at Knoxville	24	20
88	Bowdoin College	23	21
88	Pomona College	23	6
88	University of Iowa	23	19
88	University of Utah	23	17

88	Washington and Lee University	23	13
93	Swarthmore College	21	0
93	University of Rochester	21	18
93	University of South Florida	21	17
93	Virginia Tech	21	15
97	Bowling Green State University	20	18
97	Calvin College	20	17
97	Kansas State University	20	12
97	Pennsylvania State University at University Park	20	5
97	Trinity University (Tex.)	20	17
97	University of Richmond	20	12
97	Whitman College	20	16

REFERENCES

- Avery, C., & Hoxby, C. M. (2004). Do and should financial aid decisions affect students' college choices? In C. Hoxby (Ed.), *College choices: The new economics of choosing, attending, and completing college*. Chicago: University of Chicago Press, 2004.
- Bowen, W. G., Kurzweil, M. A., & Eugene M. Tobin. (2005). *Equity and excellence in American higher education*. Charlottesville: University Press of Virginia.
- Duffy, E. A., & Goldberg, I. (1998). *Crafting a class: College admissions and financial aid, 1955-1994*. Princeton, NJ: Princeton University Press.
- Ehrenberg, R. G. (2005, September). Method or madness? Inside the USNWR college rankings. *Journal of College Admissions*.
- McPherson, M. S., & Schapiro, M. O. (1998). *The student aid game*. Princeton, NJ: Princeton University Press.
- McPherson, M. S., & Schapiro, M. O. (2002, March/April). The blurring line between merit and need in financial aid. *Change*, 34, 38-46.
- Seftor, N. S., & Turner, S. E. (2002, Spring). Back to school: Federal student aid policy and adult college enrollment. *Journal of Human Resources*, 37, 336-352.
- Tebbs, J., & Turner, S. (2004, July/August). College education for low income students: A caution about using of data on Pell Grant recipients. *Change*, 37, 34-43.
- Trends in Student Aid 2004*. (2004). Washington DC: College Board.
- 2002-2003 Title IV/Federal Pell Grant Program End-of-Year Report [Web Page.] <http://www.ed.gov/finaid/prof/resources/data/pell0203/ope.html>.