RELEVANCE OF UTILITY MAXIMIZATION IN STUDENT UNIVERSITY CHOICE – A CONSUMPTION-BASED MODEL FOR HIGHER EDUCATION

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Abstract: This paper applies a model of utility-maximization to better understand the university choice process. Student decision-making for university choice is conceptualized as a purchase decision process through which students weigh the costs of colleges or universities they choose against their perceived benefits of attending these institutions. The key issues are the impact of consumer’s preferences, income, tuition, and costs in college decision-making. From this perspective, the paper describes the relationship between utility maximization and educational demand, effects of tuition increases, tuition discounting, and financial aid subsidies on university choice. A decision-making scheme for educational consumption is used in order to identify the stages of the university choice process and to predict the behavior of consumers in the higher education marketplace. The analysis points to the need to better inform students about the cost of postsecondary education which is a highly relevant aspect in the university choice process.

Keywords: College choice, consumer behavior, higher education, human capital, student-choice model

JEL Codes: A12, D01, D11

1. INTRODUCTION

Although economics theory have been applied to explain rational choices in higher education, there has been little emphasis placed on consumption behavior to examine student schooling decisions (Dawes & Brown, 2004; DesJardins & Toutkoushian, 2005; Jimenez & Salas-Velasco, 2000; Menon, 2004; Paulsen &

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Research on student university choice has used Nobel-Prize Laureate in Economics Gary Becker’s approach to human capital investments to examine student decisions regarding postsecondary education. According to this theory people accumulate their human capital over their lifetime. Becker (1962, 1993) argues that education and training are the most valuable investments in human capital and examines the relations between earnings, rates of return to human capital investments, and the production of human capital. He also suggests that high school graduates pursue postsecondary education to respond rationally to the benefits and costs of human capital investments (Becker, 1993).

From this approach, an individual’s decision about whether to enroll in a particular postsecondary institution should be examined with the standard model of utility maximization to better understand educational incentives. The utility choice model may serve to predict the behavior of consumers in the higher education marketplace.

Ultimately, a number of questions arise when considering students’ purchase decisions and the context in which educational consumption derived from university choice: Why do individuals purchase some educational goods and not others? How do preferences, incomes, tuitions, and college costs affect consumption decisions? What constraints do consumers face? How can we determine the equilibrium of the consumer? These questions are examined in detail with a consumption-based model of decision-making and choice for higher education.

To begin, the paper provides a perspective on how students choose universities by weighing costs and benefits of attending a particular institution. The problem of purchase decision-making with imperfect information or incomplete information in higher education is also addressed, and begins from the premise that the classic model of utility maximization describes the behavior of a typical consumer. How students make choices about how much income to allocate among educational goods and how they seek a satisfactory return that is translated into utility maximization is then explained. The analysis also emphasizes the effects of budget constraint on college decision-making and offers reasons for why individual preferences influence educational consumption based upon income and substitution effects. Last, a

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decision-making scheme for consumption in higher education is proposed to identify four important stages of the university choice process: information processing, product evaluation, purchase, and consumption.

2. BACKGROUND

When students select colleges, they do so through some type of cost-benefit calculus. Empirical evidence shows that higher education costs are important determinants of schooling choices, in particular for low-income students (Lillis & Tian, 2008; Long, 2004; McPherson & Shulenburger, 2008; Paulsen & St. John, 2002). The cost of attending a particular institution of higher education consists of direct and indirect costs that include not only the cost of tuition and fees but also living costs such as the cost of room and board, and opportunity costs. There are significant differences in costs between public and private institutions in American higher education. The National Center for Education Statistics has estimated the average costs for undergraduate tuition, room, and board to be $12,283 at 4-year public institutions, $31,233 at 4-year private institutions, and $7,463 at 2-year public institutions for the 2008–09 academic year (NCES, 2010). These major differences in cost between types of institutions suggest that the decision to attend a particular college or university is associated with a consumer’s response to prices.

Students also choose universities based on the expected benefits3 that may result from earning a college degree from these institutions. Usually, they associate the expected benefits of pursuing a postsecondary education with the expected earning streams that result from earning a college degree (Arcidiacono, et al., 2010; Long 2004; Paulsen, 2001). Arcidiacono and his colleagues, for example, have incorporated both expected earnings and students’ abilities in different majors to examine educational decisions and compare the returns of different majors with the cost associated with completing them. They argue that expected earnings and student’s abilities in different majors are important determinants of schooling choices (Arcidiacono et al., 2010).

2 I used the terms “university choice” and “college choice” interchangeably throughout this paper to refer to higher education institutions. The term “higher education” means education beyond secondary education, also called postsecondary education or tertiary education.

3 Empirical examinations also support the hypothesis that human capital investments (i.e., education and training) benefit individuals through higher earnings (Becker, 1993; Perna, 2005; Moretti, 2004; Paulsen, 2001). Among the private benefits of postsecondary education, college graduates earn higher salaries than non-college graduates (Hossler, Don, Schmit, & Vesper, 1999; Paulsen, 2001); they experience longer working lives, more career mobility, and higher quality of life (Hossler, et al., 1999).
Students weigh the costs of a college or university that they choose against their perceived benefits when they make schooling choices. The benefits of choosing a particular college or university may include the prestige of attending a reputed institution\(^4\) (College Board, 2008; Hossler, Braxton, & Coopersmith, 1989), an increased in expected earnings streams (Jimenez & Salas-Velasco, 2000), receiving tuition discounts and scholarships (Morphew & Taylor, 2011), campus location (Hossler et al., 1999), the quality of academic programs (Arcidiacono et al., 2010), and the quality of extracurricular programs (Menon, 2004).

### 2.2. Consumer lack of knowledge

Consumers are not perfectly informed in the higher education marketplace (Brown, 2011; Jongbloed, 2003; Klaauw, 2002; Morphew & Taylor, 2011; St. John, Paulsen, & Carter, 2005; O’Connor, Hammack, & Scott, 2010; Vedder, 2007). Students’ lack of knowledge of educational products is an integral aspect of imperfect competition in the markets for higher education. Admission officers do not disclose to prospective students what the “value added” is for attending their institutions (Vedder, 2007, p.11). Students do not make informed choices regarding enrollment in colleges and universities. As consumers, students purchase educational products based on subjective knowledge about the qualities of these products. Klaauw (2002) expresses the knowledge deficiency in student decision-making for university choice in the following way:

A student’s decision whether or not to enroll in a particular college is influenced by a number of different factors, many of which are unobserved by college administrators. The most important piece of information that is typically missing is information on a student’s alternative options [...] This lack of information not only pertains to new applicants, but also to applicants in previous years. Most colleges do not collect information about the alternatives options of those who enrolled, and about the destinations of applicants who chose not to enroll (p. 1250).

Students evidently choose universities without relevant information. Admission officers make students believe that they have relevant information for college decision-making and choice. “How much” prospective customers know

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\(^{4}\) Longitudinal data of the Cooperative Institute Research Program (CIRP) indicate that reputation of the institution is the most significant factor in college consideration and choice- 63 % of students reported that the college academic quality was a “very important” factor in their college selection, the largest percentage in 35 years (See College Board, 2008, p. 3).
about the qualities of educational products depends on what the university as suppliers want them to know. The tendency is for students who seek information about academic programs to contact the institutions who offer these programs to gain some understandings about what an educational product does or what benefits students may receive from educational consumption. This suggests that students’ subjective knowledge regarding institutions that they wish to attend influences their educational choices.

Similarly, educational consumption does not provide instant satisfaction to students. It takes several years for students to learn, obtain a degree, a well-paid job, and to appreciate the consumption benefits of education. Knowing about the quality of products only after consumption is very common in higher education.

When students choose between institutions of higher education, it is not straightforward for them to make decisions based on the qualities of their academic programs. If they are choosing between a reputed institution that offers courses taught by well-know scholars and a less-reputed one that proposes courses taught by experienced instructors, students cannot determine which institution has a better offer.

Furthermore, students lack understanding of the extent to which attending a particular college or university is really going to cost them (Grodky & Jones, 2007; Morphew & Taylor, 2011). In some higher education markets, tuition and fees continuously increase in-between academic years, and students cannot predict how much their accumulated college cost will be after completing a college degree. Under difficult economic circumstances, tuition and fees have increased due to government reduction of public funding to higher education (Heller, 2006) and increase college operational costs (Zemsky, Wegner, & Massy, 2005). In some extents, students consider these factors in selecting universities; even though it is difficult to predict the rate of increase in tuition and fees during the course of their studies.

3. THEORETICAL FRAMEWORK

The economics of the consumer’s choice postulate utility maximization (Browning & Browning, 1992; Case, Fair, & Oster, 2010; Chocholiades, 1986; Annually published college rankings is another way to gather information about academic quality, institutional prestige, and market position of colleges and universities (HERI, 2007; Meredith, 2004; Zemsky, Wegner, & Massy, 2005). The most influential rankings of higher education institutions are: the U.S. News & World Report rank orderings, Times Higher World University Rankings, Jiaotong University world-wide ranking of universities, and Money Magazine Best College-buys (HERI, 2007; Meredith, 2004; Salmi, 2009).
Friedman, 2002; Landsburg, 1992; McCloskey, 1982; Stiglitz, 1993). Consumption decisions individuals make about college choice result from how much utility or satisfaction they expect from the purchases of educational goods and services. This implies scarcity because consumers have limited budgets that they can spend. The budget constraint or the limits imposed on individual choices by income, wealth, and product prices, represents the monetary margin to the expenditures of consumers. The algebraic equation of the budget constraint is:

\[ P_x \cdot x + P_y \cdot y = B, \]

where \( P_x \) and \( P_y \) are the prices of X and Y, \( x \) is the quantity of X consumed, \( y \) is the quantity of Y consumed, and \( B \) is the consumer's budget. The budget constraint is the principal constraint imposed on individual choices. Consumers would attempt to get the greater value possible from expenditure of their available income among alternative goods.

An individual consumption decision depends on his preferences and his opportunities. Notwithstanding the fact that people’s preferences are unobservable variables; economists assume that individual preferences are relatively constant and people changing behaviors are due to changes in prices.\(^6\) However, this assumption is not always consistent with the facts in higher education. For instance, undergraduate students definitely exhibit preferences changes in consumption behavior when college students change majors and drop courses over the course of their studies. This analysis, however, postulates that individual preferences in the student college decision-making process are constant overtime.

### 3.1. Definitions

In the higher education literature, college choice – also known as university choice – is referred to as a process that involves three decisions: whether to attend college after high school; selecting a particular institution; and applying (Hossler et al., 1989). It is basically a socialization process or a dynamic interaction between individuals and various societal patterns (Brown, 2010; Hossler et al., 1999; St. John, Asker, & Hu, 2001). For Hossler and Gallagher (1987) college choice is a rank order decision, a process by which students choose a particular institution to attend from a set of institutions to which they have been admitted.

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\(^6\) Landsburg (1992) has questioned Becker and Stigler’s (1977) prepositions regarding people’s constant tastes and preferences. He writes: “In fact, the economists Gary Becker and George Stigler have gone so far to argue for the assumption that all individuals have the same tastes in all things at all times and they have no change! It is important to know whether such assumptions are consistent with the observable facts about the world” (Landsburg, 1992, pp. 76-78).
Student decision-making for college choice is also referred to as the decision about the first college-choice. From this viewpoint, Kim (2004) suggests that the definition of first-choice institution may vary by students in two ways: (a) some students make their first-choice selection among institutions they have applied, and (b) others make the first choice among the institutions to which they have been admitted.

The conventional understanding of college choice views the college decision-making process in terms of selection decision-making. High school students negotiate their college decisions with significant others (parents, relatives, peers, counselors, high counselors, college administrators, teachers, and relatives) who influence their decisions (Hossler et al., 1999; Hanson & Litten, 1982; Vrontis et al., 2007).

For purposes of this analysis, college choice is defined as a purchasing process by which a student chooses a college to gain the maximum return on the consumption value of education. The college decision-making process always leads to purchase and consumption of educational goods. College decisions determine how much income students (or their parents) will have to spend for attending a particular institution. This definition assumes that colleges and universities as suppliers of educational products provide price information and information characteristics of educational products. However, students have subjective knowledge with respect to the quality of educational products. Students act as consumers of higher education to make college choices based on how they perceive educational products. When students enroll in particular institutions they are fully committed to purchasing at least one educational product.

3.2. Assumptions

There are four postulations underlying this model of utility maximization:

- Each individual is a nonsatiable consumer, which means that students have positive marginal utility through the consumption of educational goods.
- Individuals are free to choose among a large number of colleges and universities. Confronted with the choice between two combinations of institutions, college A and college B, an individual should respond in one of three ways: (a) he prefers college A over college B, (b) he prefers college B over college A, or (c) he is indifferent between colleges A and B- that is, he prefers colleges A and B equally.
- Choices are consistent with individual preference ordering. If an individual prefers a college A to a college B and subsequently shows that he prefers
college B to college C, he should prefer college A to college C when confronted with a choice between the two institutions.

- There is a diminishing marginal rate of substitution, or the decline of the ratio at which an individual is willing to substitute a college X for a college Y.

These assumptions also suggest that individuals make rational educational choices, balancing the benefits of attending an institution against the costs in order to achieve optimality in a given decision. Theoretically, consumers are competent decision-makers in the higher education marketplace; therefore they could derive maximum utility from educational consumption.

4. AN APPLICATION IN A UTILITY MAXIMIZATION ANALYSIS

To begin to understand how students make college choices let us consider how a high school graduate thinks about pursuing in a postsecondary education. Then, the individual considers a number of college opportunities in the higher education marketplace. Suppose that admission in these colleges is guaranteed, that is, there is no admission policy constraint. As a result, the constraints that surround the individual college choices are related to the spending restrictions of income, wealth, and tuitions; this is the concept of the budget constraint. We, therefore, suppose that the individual allocates a fixed amount of income between “higher education” and “all other goods”.

Within the budget constraint, however, the individual weighs his ultimate choice based upon preferences and tastes. The consumer’s choice might be influenced by the college characteristics such as academic reputation, academic quality, campus location, campus safety, tuition and fees, cost of attendance, financial aid, and program availability. According to figure 11-a, the consumer set of indifference curves \((U_0, U_1, U_2,...U_n)\), called a preference map, explains how an individual chooses the combination \(X\) units of higher education and \(Y\) units of all other goods to maximize total utility.

Figure 11-a is also a representation of how a consumer allocates a budget between higher education expenditures and all other goods. Graphically, the consumer’s budget constraint encodes the choice set or opportunity set. Individual preferences, trade-offs, and opportunity cost govern the ultimate choices within the limits of a budget constraint. Each consumer weighs the chosen goods and services against all other things that could have been purchased with the same amount of money.
The higher indifference curves represent the greater utility \((U_0 < U_1 < U_2 < \ldots < U_n)\). There is a trade-off between higher education (the X-axis) and all other goods (the Y-axis). The budget constraint takes apart the combinations of goods and services that are available, given limited income, from those that are not. Optimal choice decision making can be achieved if the consumer moves along the budget constraint until he attains the greatest possible utility.

Utility increases if the consumer moves along the budget line toward \(A\). The ordinal utility maximization occurs at \(A\) \((X_1, Y_1)\), the point at which the budget constraint line is tangent to the indifference curve and where the consumer purchases \(X_1\) units of higher education goods and \(Y_1\) units of all other goods. In graphic terms, point \(A\) represents the consumer utility-maximizing equilibrium (Case et al., 2010).

### 4.1. Utility-maximization equilibrium

Figure 11-a also shows that a consumer has the incentive to maximize his ordinal utility within the limit of a budget constraint. He has to allocate \(X_1\) dollars to higher education expenditures and \(Y_1\) dollars to all other goods. The ordinal utility maximization occurs at \(A\) \((X_1, Y_1)\), the point at which the budget constraint line is tangent to the indifference curve \(U\). This is an essential condition for consumer equilibrium that satisfies the equation.

\[
MRS_{xy} = \frac{T_x}{P_y}
\]

where \(MRS_{xy}\) is the marginal rate of substitution of \(X\) for \(Y\) at \(A\), \(T_x\) is the tuition charged for enrolling in higher education (or price of higher education goods), and \(P_y\) is the price of all other goods.

Figure 11-b describes how the consumer demand curve meets a perfectly elastic or horizontal supply curve at the market equilibrium price of \(T_1\) worth of higher education goods.
4.2. Effects of a rise in tuition

Let us suppose that the college increases tuition to cover its operational costs, with income and the price of all other goods held constant. Figure 12-a describes how a student with a constant budget constraint responds to rising tuition. This increase causes the budget line to rotate inward from the fixed point \( Y_1 \) of the amount of expenditures allocated to all other goods to the increasing amount of expenditures allocated to higher education, \( X_2 \). This rotation produces a new budget line and the indifference curve drops to a lower level of satisfaction.

The individual responds to rising college tuition with a decrease of expenditures of all other goods. The substitution effect or the change of consumption \((X_2-X_1)\) allows the individual to consume both goods within the limit of the similar budget constraint. The increase in college tuition also makes all other goods less expensive. Therefore, our individual consumer can increase his consumption of all other goods. This substitution effect is also referred to as the “pure price effect” or “compensated price effect” (Friedman, 2002). In the college choice decision-making context, the substitution effect is the “pure tuition effect.”

The rise in college tuition also affects the consumer’s quantity demanded of units of higher education—this is the income effect. Figure 12-b shows that the increase in tuition tends to make consumer demands less quantity of higher education.
goods, $Q_2 < Q_1$. For example, a student may enroll in college on part-time basis instead that full-time. To maintain his level of consumption of higher education goods, the consumer may also decide to purchase less of all other goods. In fact, there is a negative relationship between rising tuition and college enrollment (Cabrera & La Nasa, 2000) and increasing tuitions discourage low-income students for pursuing postsecondary education (Heller, 2001; McPherson & Shulenburger, 2008).

![Figure 12 Tuition Increase, Utility Maximization, and Educational Demand](image)

### 4.3. Choice of substitute goods in the higher education marketplace

Now, suppose a student makes a purchase choice among two educational goods: a private institution of higher education and a public institution. Figure 13-a describes how an increase in the tuition of one higher education good (enrolling in a private institution) causes an increase in the quantity demanded of the substitute good (enrolling in a public institution). When the tuition of the private institution goes up, the demand for a less expensive public institution goes up because many consumers demand less expensive public universities (D1). The curve D2 represents the demand for public universities when private universities are less expensive. In fact, rising college tuitions have forced low-income students to enroll in less expensive colleges or not attend college at all (Lillis & Tian, 2008; St. John et al., 2001; St. John, 2002).
Financial aid programs are designed to increase college access, increase affordability, and promote equality of opportunity in higher education. These government subsidies for education reduce the cost of attending college to eligible students (Gillen, 2010; Heller, 2001). In the United States, financial aid is awarded to eligible students based on a federal formula that determines a student’s “expected family contribution” (EFC) in accord with the Higher Education Act of 1965 as amended. The EFC is the sum of a percentage assessment of the net income of the applicant (and his parents) and a percentage assessment of his net assets.

In order to be eligible for financial aid, a student must actively pursue a degree or certificate in an eligible higher education institution and make satisfactory academic progress toward completing the degree. The recipient of the financial aid is also required to attend only the institution for the entire period for which the financial assistance is awarded. Under these restrictive rules, the awarded amount is typically disbursed to the eligible institution from which each student receives the financial aid refunds when the awarded amount exceeds the allowable charges of his student account.\(^7\)

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\(^7\) This analysis assumes that students cannot spend their financial aid refund money to purchase non-educational goods.
Figure 14 illustrates the effect of financial aid on college choices. Consider that a consumer was initially under the spending limit of a budget line from which his ordinal utility-maximization equilibrium point is $A_1$. When a consumer is awarded financial aid the cash subsidy extents the limit of the budget constraint. The consumer can purchase more higher education goods in order to attain another ordinal utility-maximization equilibrium point $A_2$, assuming tuition remains constant. In fact, empirical works show that the amounts of financial aid awarded to students influence their decisions about college including the probability of enrollment (Avery & Hoxby, 2004; Epple, Romano, & Sieg, 2006; Gillen, 2010; Heller, 1999; Kim, 2004; Klaauw, 2002; Long, 2004; Moore, Studenmund, & Slobko, 1991).

![Figure 14: Financial Aid Programs Increase Utility](image)

5. **The University Choice Process**

5.1. Socioeconomic factors, students and institutional characteristics

University choice is a complex process. The higher education literature offers various models to examine the most significant activities of the university choice process (Chapman, 1984; Hanson & Litten, 1982; Hossler et al. 1999; Jackson, 1982; Jimenez & Salas-Velasco, 2000; Vrontis et al., 2007). Researchers have isolated the
factors that influence college choice and have emphasized the interaction between these variables. Jackson (1982) proposes a three-stage model of college choice: preference, exclusion, and evaluation. In the preference stage, academic achievement has a strongest correlation with students’ educational aspiration. In the second stage, the choice set is fed by resources, academic achievement, and aspiration. The evaluation stage is the process through which the rating schemes and the choice set lead to choice.

The Hanson and Litten’s model (1982) examines a large set of variables that influence college decisions, including high school characteristics, public policy, college actions, personal attributes, student characteristics, college characteristics, and influences/media used. The Chapman’s (1984) model integrates student characteristics with the other factors of college choice into a student’s general expectation of college life. Three groups of factors influence the college decision-making process, including student characteristics, significant persons, college characteristics, and college effort to communicate. Vrontis and his colleagues propose a contemporary student-choice model for developed countries based on the standard theory of consumer behavior to portray the environmental, individual, and institutional factors of student-choice (Vrontis et al., 2007). They provide an exhaustive list of groups of factors that influence student-university choice. The individual determinants include race, socioeconomic status, parent’s education, and sex; the environmental determinants include economic conditions, cultural conditions, public policy, influences of parents, career counselors, peers and college officers; and they argue that other factors such as college characteristics and high-school characteristics determine the decision students make about postsecondary education in developed countries.

6. **Consumption-Based Scheme for University Choice**

This paper presents a scheme for educational consumption that deals with the consumer dimension of the college choice process. This consumption scheme identifies the dynamic relationships among characteristics and determinants of purchase decision-making in the higher education marketplace. Figure 15 illustrates the ways in which consumer’s motives and preferences, budget constraint, and tuition affect individual consumption of educational goods. This scheme shows that the process of educational purchase in college decision making occurs in four sequential stages.
6.1. Information processing

When high school graduates think about going to college, they have preference-orderings or positive attitudes toward some postsecondary institutions, which play an important role in the shaping of individual demand for higher education (Jimenez & Salas-Velasco, 2000). Research consistently shows that college characteristics such as reputation, program availability, tuitions and costs, and location determine personal preferences for particular institutions (Hossler et al., 1999; Long, 2004; O’Connor et al., 2008; Paulsen, 2000). The information processing consists of social interactions that are essential in the college decision process even though this stage is not included in several economic models (Hossler et al., 1999). This scheme describes how students make educational choices based on their own motives, what they know about the economic condition, higher education environment, and public policy.

6.2. Product evaluation

In the product evaluation stage, consumers mentally anticipate the purchase and makes cost-benefit comparisons between products. For each product of the choice set, consumers weigh their perceive benefits of the products against the costs. Some consumers are more concerned with college tuition than with the product characteristics or attributes. Low-income high school students, for example, tend to enroll in public institutions that charge less expensive tuitions (Lillis & Tian, 2008; St. John 2002).

6.3. Purchase

In the purchase stage, consumers are negotiating their enrollment with college administrators to enroll in an academic program. During enrollment (purchase of educational products) consumers can receive tuition discount benefits. The enrollment/purchase stage can be referred to a pre-consumption stage. If the institution increases tuition the consumer will consider substitute goods such as registering in a less expensive college in the summer, or transfer in another institution- this is the substitution effect. A full-time college student may reduce his consumption of educational goods by taking courses part-time- this is the income effect.

6.4. Consumption

The consumption phase is a recurring process that extends until graduation. Through this stage, students both consume educational products and evaluate
consumption outcomes. When they are dissatisfied with their choices, they tend to return to the product evaluation stage and consider other choices in order to achieve their educational aspirations.

5. CONCLUSION

In economics theory of consumerism in higher education all products possess objectives attributes relevant to the choice which consumers make to achieve a postsecondary education. Consumers exhibit their preferences for specific educational goods to all others by enrolling in a particular college or university.
Whenever students as consumers make educational choices, they allocate income over a large number of goods and services to maximize utility.

The human capital approach explains that the incentive to gain a postsecondary education depends on the rate of return expected from investments in education. It has been seen from the facts that a postsecondary degree raises productivity and earnings and provides other benefits to graduate students.

However, sublime and ridiculous personal motives predispose each individual toward considering college education (Sowell, 1986). Likewise, socioeconomic, academic, and institutional factors influence the decisions students make about going to colleges and lead to the purchase of educational goods. Students, therefore, tend to act rationally in their decisions and choices about higher education.

The model of consumption decision-making for higher education that has been presented posits that individuals make educational choices based on subjective information. Less is known for college decision-making about the objectives characteristics of most educational products, attributes, properties, and quality. Less too is known about the real cost of attending a college, the alternative options for those enrolled, the extent to which market conditions affect the rate of increase in tuition, and the effects of consumers’ lack of relevant information on educational choices.

In this paper, college choice is referred to as a process by which students purchase educational goods to gain the maximum return on the consumption value of education. The point of the analysis is the role of the budget constraint in the university choice process. With this understanding, the determining factors of student’s university choice are individual preferences, income, tuition and fees, and costs of attending a particular postsecondary institution.

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