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## NEWSLETTER

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### The Impact of City Size on the Rate of Return to Education

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IN recent years, the capital cities represented by Xi'an and Wuhan have successively introduced policies to attract talents to settle down. To better study the talent mobility strategy, research published in *China Economics of Education Review* analyzed the impact of urban size on education returns in 2002 and 2012. The results show that: the effect of city size on the rate of return on education increased significantly over time.

To be specific:

- In 2012, for every 1% increase in the urban population, the labor force return to education increased by an average of 1.15%-1.21%. Among them, the male return to education increased by an average of 1.60%, and the female return to education increased by 1.50%; and for every 1% increase in urban GDP, the return to education will increase by 1.07%-1.14%. Among them, the male education returns rate increased by 0.80%, and the female education return rate increased by 0.72%. The results of correcting the endogenous bias through instrumental variables show that for every 1% increase in urban population, the rate of return to education will increase by 4.84%-5.14%; for every 1% increase in urban GDP, the rate of return to education will increase by about 2.80%-2.97%.
- As the level of education increases, the impact of city size on the rate of return to education gradually increases. Among them, for every 1% increase in the size of the urban population, the difference between the educational return rate of the high school group and the university group relative to the junior high school group should be increased by 5.2% and 8.5%; and for each 1% increase in the urban GDP scale, the high school group and the university group relative to the junior high school group should be increased by 4% and 7.4%, respectively. The size of the city has a greater

impact on the educational returns of people with a college education or above.

- Compared with the educational returns of different age groups, the urban scale shows an inverted U-shaped relationship. As age increases, the urban educational returns premium increases first and then decreases. For the workforce of 30-40 years old, the size of the city has the greatest impact on the rate of return on education. As the age rises further, this effect will weaken. When considering the actual income adjusted by the price level, the positive effect of the city size on the return to education is weakened. When considering the actual income adjusted by the housing price level, the effect of the city size on the return to education changes from positive to negative.

To this end, the author suggests that for smaller cities, it should be based on economic development, increase the degree of industrial agglomeration, and attract talents of all levels to employment, so as to achieve further expansion of the city's scale.

*Source: China Economics of Education Review, 2020; 5(1):110-132.*