

DOES GRADUATE HUMAN CAPITAL PRODUCTION INCREASE LOCAL ECONOMIC DEVELOPMENT: AN IV APPROACH

Abstract

We investigate whether the degree production of universities affect local economic development of the areas in which they are located taking into account that the local gain associated with the presence of universities will depend also on the mobility of graduates. To deal with suspected endogeneity between human capital development and economic growth, we employ an instrumental variable approach using a global lump-sum that the central government transfers to each university and that can be managed by universities autonomously as instrument for the number of graduates. Once we control for the flow of mobile students and graduates, the findings reveal the beneficial effect of the university system on regional development through the gain in human capital. The effect is stronger for graduates in science and technology sector, for highly ranked universities and in areas that already have a virtuous level of development.

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