

The Economic Benefits of Malaysian University Degrees

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Abstract

This study analyzes the net returns of educational investment in Malaysia using the net present value approach. The estimations consider the tuition payments of nine different bachelor degree programs of public and private universities in Malaysia and the forgone earnings while undertaking the degree programs as the cost of investments in human capital. The returns to education investment are based on the expected income accrued by the individual over the employment period until retirement. Under the assumptions that an individual would work until the retirement age of 60 years and a discount rate of 4 percent, the estimations show that holding a computer science degree from Universiti Sains Malaysia would give the highest net present value. Holding a medical degree, in general, would give the lowest net returns on educational investment as compared to the other selected programs. The net returns are sensitive to the costs of education, earnings and the duration of undertaking the degree programs.

Keywords: *Human capital investment, net present value, private rate of return, educational investment, Malaysian degree programmes*

INTRODUCTION

Many Malaysians now consider tertiary education as a gateway to the middle income. After secondary school, students' enrollments into popular degree programs such as accounting, computer science, medicine, engineering, and architecture have shown a rising trend. Students expect to earn a good income in the future, and are willing to finance their studies, especially through an educational loan. Are popular degree programs worth pursuing financially? This question is central to the decision of this paper. The primary objective of our study is to estimate the net returns of selected degree programs offered by public and private universities in Malaysia.

A study by Arshad (2016) showed that the marginal rate of returns to a university degree was the highest as compared to other lower qualifications in Malaysia. Besides qualification, the study also found that earning differentials could be attributable to occupational activities and regional/urban-rural locations in Malaysia. The difference in the wage premium due to educational levels has encouraged more individuals to pursue higher education. Educational acquirement has led university's graduates to receive better income, have a higher probability of being employed, and be less likely to experience poverty compared to those without a bachelor degree (Chan, 2016).