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# The economic value of higher teacher quality $\hat{\alpha}^{\dagger}$

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### Abstract

Most analyses of teacher quality end without any assessment of the economic value of altered teacher quality. This paper combines information about teacher effectiveness with the economic impact of higher achievement. It begins with an overview of what is known about the relationship between teacher quality and student achievement. This provides the basis for consideration of the derived demand for teachers that comes from their impact on economic outcomes. Alternative valuation methods are based on the impact of increased achievement on individual earnings and on the impact of low teacher effectiveness on economic growth through aggregate achievement. A teacher one standard deviation above the mean effectiveness *annually* generates marginal gains of over \$400,000 in present value of student future earnings with a class size of 20 and proportionately higher with larger class sizes. Alternatively, replacing the bottom 5% of teachers with average teachers could move the U.S. near the top of international math and science rankings with a present value of \$100 trillion.

Research highlights

â–¶ Good teachers generate enormous income for students. â–¶ Poor teachers are very costly, holding down achievement dramatically. â–¶ Policies to improve teacher quality have very large payoffs to society. â–¶ Available research permits direct estimation of economic value of teacher quality.



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## JEL classification

H4; I2; J3

## Keywords

Performance pay; Teacher labor markets; Salaries

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