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The Relationship between Institutional Efficiency and Instructional Quality in Higher Education

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ABSTRACT

Wage setting methodologies for university faculty may be merit/market based or administered. Failure to exploit the fact that faculty productivity depends on abilities and wages results in inefficient use of university budgets. If such inefficiencies exist it suggests suboptimal productivity of the existing faculty and the inability to attract new qualified faculty. As motivation for this analysis, a simple model of university faculty " output" maximization is presented. Efficient budget allocation requires that faculty compensation be structured so that marginal productivities are equated across faculty. This paper examines and compares the efficiency of several regional universities in the US, identified as " peers" , employing the Data Envelopment Analysis (DEA) estimation method. The results suggest the existence of inefficiencies and more notably, that the homogeneity assumption regarding the peers is questionable.

KEYWORDS

Salary; Efficiency; DEA; Higher Education; Education Administration

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