

SPENDING WISELY? HOW RESOURCES AFFECT KNOWLEDGE PRODUCTION IN UNIVERSITIES

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ABSTRACT

Every year billions of dollars are spent on research grants to produce new knowledge in universities. However, as grants may also affect other research funding, the effects of financial resources on knowledge production remain unclear. To uncover how financial resources affect knowledge production, we study the effects of research spending itself. Utilizing the legal constraints on university spending from an endowment we develop an instrumental variables approach. Our approach instruments for university research spending with time-series variation in stock prices interacted with cross-sectional variation in initial endowment market values for research universities in the United States. Our analysis reveals that research spending has a substantial positive effect on the number of papers produced, but not their impact. We also demonstrate that research spending effects are quite similar at private and public universities.

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