Exhibit F

To: Herb Peterson, Vice President, Business and Finance

From: James Monks

Date: April 5, 2004

Re: Enrollment sensitivity to changes in price

Dear Mr. Peterson:

Last year I undertook an analysis of the sensitivity of the University of Richmond’s accepted applicant pool to changes in price, net of financial aid. The sample I used for this analysis was the accepted class for the fall of 2002, excluding early decision admitted students.

Because the current discussion concerns the estimated impact of a tuition increase on enrollment, I will limit the following discussion to applicants who were not eligible for and did not receive need based aid. These are the individuals for whom a tuition increase would be most applicable. Applicants with demonstrated need for financial aid should not be affected by a tuition increase as we now meet full need. The analysis I performed estimated the impact of a change in price on the probability of enrolling at the University of Richmond, conditional on one’s SAT score, high school class rank, gender, race, and region of residence. The change in price I used was based on variation in grant aid and loan offers across non-needy students for the admitted, regular decision, fall of 2002 class.

A change in tuition or a change in grant aid should have a similar impact on enrollment as they have identical impacts on net price. A one thousand dollar increase in tuition has the same impact on net price as a one thousand dollar decrease in grant aid. Aside from psychological factors, such as the honor of receiving a merit award, the price effect of grant aid and tuition changes should be the same. My analysis estimated that a one thousand dollar decrease in grant aid lowered one’s probability of enrolling by approximately 2.3 percentage points.

The magnitude of this result is in line with estimates found at other institutions. For example, a study performed at Princeton University following their decision to replace loans with grants for low income students found a comparable magnitude. Additionally, the recent study I sent to you by Avery and Hooshy, found that a one thousand dollar decrease in grants for a school like the University of Richmond, with a 33 percent yield, would lead to an approximately 3 percentage point decline in yield. Their study, however, found substantial differences in the enrollment impacts of grants versus tuition, with the tuition impact being much smaller than the effects of grants. In
particular, they estimate that a one thousand dollar increase in tuition would reduce enrollment by two percent of the current yield, or by approximately two-thirds of a percentage point in the case of the University of Richmond.

I would view my estimate and the Avery and Hoxby estimate as upper and lower bounds. My estimate suggests that a $3000 increase in tuition would result in a lower yield of approximately 7 percentage points. The Avery and Hoxby estimate suggests a $3000 increase in tuition would lead to a reduction in yield of approximately 2 percentage points. I am more confident in their estimate than my own, as they had a better data set and were able to estimate directly the impact of a tuition change on enrollment probabilities conditional on one’s grant award, rather than try to infer tuition responses based on variation in grant awards, as I was attempting to do.

Additionally, as we still offer a full-price that is seven to eight thousand dollars below the full-price of most of our competitor private institutions, I think we have some room to increase our tuition and still remain cost competitive relative to our peer institutions (although the larger the increase the less true this statement remains, of course). In my opinion a $1000 dollar bump in price still will maintain our cost advantage relative to most of our private peer institutions, and will have a negligible impact on our yield. A $7000 dollar bump in price essentially eliminates this cost advantage and it is my gut feeling that an increase of this magnitude will have an appreciable impact on our yield. The middle bump of $5000, it is my sense, will be felt in terms of our yield, and thus represents a trade-off of yield versus revenue. There are actions we can take to buffer the yield from these effects, such as taking a larger share of the class through early decision, but this too represents a trade-off.

I hope that this brief discussion of the results of my analysis and my thoughts on the proposed tuition increases is of some assistance to you in establishing next year’s tuition.

Sincerely,

James Monks
Department of Economics
Robins School of Business
University of Richmond

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