

Return to Shanghai, and a supply/demand paradox

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While students and teachers across America settle into their summer routine and look forward to three more weeks of summer vacation, the first week of August marks an unseen exodus of thousands of international students and teachers in countries on every continent. For some reason, international schools all seem to start about two weeks earlier than the post-Labor day start date enjoyed by most public school in the US. Here at Shanghai American school, teachers arrive in droves around the 7th and 8th of August, just in time for our first work day on the 9th.

My wife and I returned to 95 degree heat from the pleasant 70's of Seattle last night to begin preparing for our second year at Shanghai American School. In a week SAS will welcome around 2900 students, making it one of the largest international schools in the world. As part of our orientation this morning, our director, Dr. Dennis Larkin, shared a bit of SAS's 95 year history with the faculty, enlightening many of us to the school's storied past stretching back to the concession era of Shanghai's "golden age" when thousands of Westerners made their settlements in the city's center. 100 years ago Shanghai underwent a renaissance unseen in China's thousands of years of history. European influence brought the city into the 20th century architecturally, culturally, economically, and perhaps more notoriously in the realm of criminal activity as gangsters took over the city through much of the 20's and 30's.

With the large Western presence came a demand for Western schools, thus in 1912 Shanghai American School welcomed its first class of 12 students. By the 20's enrollment rose to 600, and by the 30's it approached 1,000. In 1937 China was invaded by Japan, and foreign firms and embassies began nervously moving their people out of Shanghai. By 1939 Shanghai had fallen to the Japanese and the school grounds were occupied by Japanese troops. But with the surrender of the Japanese in 1945, the school was back in operation, albeit for only a short time as a civil war between the Chinese Communist Party and the US backed Nationalists brought violence to the streets of Shanghai once more. By 1950 Beijing had fallen to Mao and the Communists, and SAS was shut down "for good". Its doors would remain closed for 30 years until 1980, when Mao had died and Deng Xiaoping had ushered in the era of "Reform and Opening", a euphemism for westernization. Once again SAS opened for business.

In the 27 years since the school's rebirth, the student body has grown from the seven children of American diplomats to 2,900 students from over 50 countries. In the last five years alone the student body has nearly doubled in size, as the school has added a second campus and countless new buildings to serve the growing population of foreigners in Shanghai. Over the same 27 years, around ten other international schools have opened in Shanghai, some with two or three campuses spread across the vast city, several serving over 1000 students also from scores of foreign countries. What impact has the opening and expansion of SAS and other international schools had on tuition paid by foreign students in Shanghai? You may think that with so many schools competing to attract students, each school would have to lower its fees in order to attract students away from its competitors. Well, you'd be wrong. SAS *increased* its tuition fees by 10% this year, bringing a year's tuition to around \$22,000. Its competitors charge something in the same ballpark, meaning a year of schooling at any of Shanghai's international schools will cost a family more than a year's tuition at most state universities in the US.

Discussion Questions:

So, what does all this history and data have to do with economics? Here's a simple **supply** and demand question for you. In 1980, international schools in Shanghai had room for, let's say 20 students total. I am not sure, but I'd guess tuition in 1980 probably ran around \$2,000. Today, there are somewhere around 10 international schools with room for probably around 10,000 students, and the average tuition is somewhere in the realm of \$20,000.

1. How would an economist explain the 1,000% increase in tuition over the last 27 years, given the fact that today international schools in Shanghai have the capacity to serve 500 times as many students as they could in 1980?
2. Could you draw a supply and demand diagram illustrating the changes that have occurred since 1980 in the **market** for international education in Shanghai?

Let's be honest, \$22,000 is a lot of **money** for a year of school. What would have to happen in the market for international education in Shanghai for the tuition fees to go down? Identify two scenarios that would result in a tuition decrease. Illustrate these scenarios on your diagram.