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Abstract

American students graduate from college with tens of thousands of dollars in debt, leading to substantial repayment burdens and potentially inefficient shifts in spending patterns and career choices. A political trend towards austerity coupled with the rising student debt make the effective allocation of federal higher education resources and manageable repayment burdens on graduates high priorities. In this article, we evaluate the net cost and distributional characteristics of four methods of US student loan repayment: the standard option, the income-based option, Pay-As-You-Earn option, and the proposed Student Loan Fairness Act. Conducting repayment simulations on 1993 and 2008 graduate debt levels for 502 constructed graduate salary paths, we find an inherent trade-off between public loan cost and repayment burdens; student loans that are more generous to poorer graduates are also those that are most expensive to the taxpayer. We conclude with a discussion of how the introduction of a targeted interest rate on income-contingent loans can circumvent this policy trade-off by extracting greater repayments from higher earning graduates. (HRK / Abstract übernommen)