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The returns to schooling in vietnam during economic transition: does rate of returns to schooling reach its peak?

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**Abstract**

A common phenomenon about transition economies is that the return to schooling improves as economic reform progresses. Existing research suggests that Vietnam is not an exception to this pattern. However, the rate of return in period from 1992 to 1998 is still relatively low, below 5 percent, relative to that of the world and other transitional economies. And it is hard to see a clear trend in the current literature due to different methods applied and sets of variables controlled in the earnings equations. The low returns may result from the gradual economic reforms applied in Vietnam, whilst in Eastern European countries the “Big Bang” transformation was conducted. Therefore to see whether the return to schooling in Vietnam is rising and reaches other transitional economies' rate of returns, we re-examine the trend in the rate of return to schooling in Vietnam over the 1998-2008 period, where the reforms have had a longer time to have an effect. We apply the OLS and Heckman selection estimator (Maximum Likelihood approach) and find that the return has increased quickly during the later economic reform period but its pace has slowed down when the return reached the global average rates of returns around 9-10 percent (Psacharopoulos, 1994).

Completed draft available on request from:

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