What Drives Finance Professors' Pay?*

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Abstract

We investigate the economic drivers of academic pay heterogeneity, and particularly the role of industry-wage spillovers to academia, by studying the wage premium of Finance professors. Using salary, publication, and socio-demographic data from over 75,000 professors across fields and U.S. universities, we quantify a 50% wage premium for Finance research faculty relative to faculty from other fields with similar qualifications and positions. Students graduating in Finance obtain higher and more skewed work-life earnings, plausibly contributing to the higher tuition and donation revenues per faculty we observe in Finance. In addition, faculty wage returns to students' post-graduation earnings and to research output are higher in Finance academia than in other fields, consistent with universities competing for a limited pool of talented Finance professors. Finance industry high wages spill over to university revenues, and Finance faculty obtain a larger share of this spill-over than in other fields.

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1 Introduction

The distribution of wages in academia influence the allocation of talent across academic fields, as well as faculty effort and productivity. These factors, in turn, can significantly impact students' academic achievements and their prospects in the labor market, as well as the level of innovation across different sectors. Moreover, faculty wages represent a large share of tuition costs, which have increased in recent years, with important economic consequences such as the build-up of student loans or the sorting of students into high paying fields.[1] Therefore, understanding the determinants of academic pay and of its heterogeneity across fields matters for both academia and the broader economy.

One potential driver of wage heterogeneity across academic fields is the significant variation in compensation by industry, which can influence students' willingness to pay for tuition, donations, or faculty's alternative career options. Since the 1980s, the finance industry, in particular, has offered increasingly higher and more skewed wages compared to other sectors (Philippon and Reshef 2012; Célérier and Vallée 2019). These compensation patterns in the finance industry may spill over to finance academia, where anecdotal evidence suggests relatively high faculty compensation.[2] Our study aims at quantifying the Finance academia wage premium and investigating the economic forces that underlies it, including the economic channels potentially linking compensation in the finance industry and academia.

For the purpose of precisely quantifying the Finance-academia wage premium, we build a comprehensive dataset covering information on academic field, compensation, rank, research output and socio-demographics for 75,000 research faculty from 1,450 U.S. universities over the 2005-2018 period. We first collect name-identified wage data from U.S. public universities across 32 states through public

[1] The role of faculty wages in driving the growth of college tuition in the U.S. in recent decades has been a subject of debate in academic literature. For instance, Rhoades and Frye 2015 and Gordon and Hedlund 2019 argue that faculty wages have not been a significant factor in the increase of college tuition, while Archibald and Feldman 2008 and Bundick and Pollard 2019 present the opposite argument.

[2] For example, see the report on business school faculty pay at https://poetsandquants.com/2018/08/11/what-business-school-professors-are-paid-may-surprise-you/.

record requests in accordance with the state-level freedom of information laws. We complement this dataset with information on faculty from *private* and other public universities using green card and H1B application data, thereby leveraging the significant share of faculty employed in U.S. universities that are not U.S. citizens. When possible, we merge individual wage data with the bibliographic database Scopus. We identify the academic field using the occupation code when available, field or publication history from Scopus, or the James Hasselback's faculty directory. We restrict our sample to research tenure track faculty and define "universities" as any post-secondary institutions that award bachelor degrees. In total, universities in our sample include 82% of all 2019 full-time undergraduate students enrolled in four-year colleges and 89% of assistant/associate/full professors working in these colleges.

Controlling for year, university and position fixed effects, we find that finance professors benefit from a wage premium of close to 50% on average. This premium is concentrated in the top of the wage distribution, has been increasing over the 2010-2018 period – from 42% to 57%–, and is comparable in magnitude to the one observed in the finance industry (Philippon and Reshef 2012).[3] This premium is economically large: the wage gap between Finance versus Humanities faculty, which amounts to 90% within top 50 universities, is thus twice larger than the wage gap between Humanities faculty and kindergarten teachers (40%).[4] As opposed to what happens in other high-skill service jobs such as consulting, banking or auditing, field-expertise seem to dramatically affect wages for workers with comparable qualifications and positions in academia.

To investigate the economic mechanism underlying the Finance-academia wage premium we document, we exploit four additional data sources. We gain insights into earnings across different educational backgrounds by utilizing individual-level education, employment and demographic data from the American Community Survey. We also use university-field-level data from the U.S. Department of Edu-

[3](Philippon and Reshef 2012) finds the finance wage premium amounts to around 50% in 2005.

[4]Annual wages in May 2022: kindergarten teachers - \$60,490, elementary teachers - \$61,690, high school teachers - \$62,360. Data source: Bureau of Labor Statistics, U.S. Department of Labor, Occupational Outlook Handbook.

cation, which includes information on student salaries post-graduation, enrolment, and applications across universities and majors/fields. Additionally, we incorporate information on faculty publication count and research impact from the bibliographic database Scopus. Finally, we collect data on both tuitions and donations, the latter from the Chronicle of Philanthropy's database of charitable gifts.

We rationalize university high willingness to pay for Finance professors by exploring differences in academic outputs. More specifically, we focus on two dimensions that might drive the demand for faculty: students' future earnings and research productivity. Wage data from the American Community Survey reveals a correlation of 0.7 between faculty pay and graduate student's expected lifetime earnings across fields. In fact, graduate students with a Finance degree can expect a 20% higher wage on average during their career. Second, wages are also more skewed for Finance graduate. The wage premium of Finance graduate is the highest at the 90th percentile of the wage distribution, at 50%, and Finance is the industry that concentrates the highest number of billionaires. Finally, we also find a higher skewness in research impact in the Finance academic field, where a relatively small number of professors concentrates a high share of citations.

Next, we provide evidence suggesting that the higher lifetime earnings of Finance students increase their willingness to pay for Finance education. Hence, tuition revenues per faculty are higher in Finance than in other academic fields, resulting from both higher tuition levels and a lower number of professors per student. Another significant source of university revenues, donations, originate disproportionately from Finance alumni. On average, both donations and tuitions per faculty are more than twice higher in Finance than in other fields.

Our central empirical result is that wages in finance academia are more sensitive to academic output than in other fields, measured both in terms of student future earnings and research impact. We obtain this result by regressing faculty wages on student post-graduation earnings data at the university and field levels. When we include an interaction of student wages with a dummy for Finance faculty, we find that faculty wage returns to student earnings are three times higher in Finance than in other academic fields. Similarly, when we regress faculty wages on within-field measures of research impact, i.e., citation or h-index quintiles, we find a higher wage sensitivity to research impact in Finance than in other academic fields. Hence, the Finance-academia wage premium is allocated across faculty mostly according to the pay of their students.

This result suggests universities compete for a limited pool of talented Finance professors, which is consistent with an analysis on the pool of PhD graduates across fields. Indeed, we find that the ratio of PhD graduates to the number of faculty is the lowest in Finance, while Finance PhD students are more likely to pursue an academic career than PhD graduates from other fields. This might put some pressure on a labor market where an increasing number of universities seek to higher PhD faculty in Finance to meet the accreditation requirements for business programs. These requirements indeed set a minimum share of faculty with a PhD.

However, while our results suggest a stronger competition for professors in Finance than in other fields, coupled with higher revenues per faculty, we do not observe "superstar effects" as in the Finance industry. Finance academia wages are only weakly increasing with experience in contrast to other academic fields, and level off at the top of the wage distribution. We provide a potential explanation for this empirical fact based on a steeper increase in university monopsony power with academic rank in finance than in other academic fields. We demonstrate that in a number of academic field, universities are wage-takers in the markets for assistant and associate professors, whereas they have monopsony power over full professors and can set lower wages. However, finance schools not only have monopsony power over full professors, but also over associate professors, resulting in lower returns on experience than in other academic fields.

Our work relates to the literature on the finance wage premium (Philippon and Reshef 2012), its underlying mechanism (Acharya et al. 2016; Benabou and Tirole 2016; Célérier and Vallée 2019) and its implications. For example, the finance sector may lure talented individuals away from other industries (Murphy et al. 1991; Philippon 2010; Bolton et al. 2016) or from financial regulators (Shive and Forster 2016; Bond and Glode 2014). This paper shows how wage differentials across industries can have long-reaching effects by driving the wages of academic faculty, which in turn might affect talent allocation, learning, and innovation in the economy.

Second, our paper contributes to the literature on the determinants of wages in academia, such as publications (Katz 1973; Tuckman and Leahey 1975; Swidler and Goldreyer 1998; Garfinkel et al. 2021), citations (Katz 1973; Hamermesh 2018), department performance (De Fraja et al. 2020), seniority (Ransom 1993; Moore et al. 1998; Hilmer and Hilmer 2011), university monopsony power (Ransom 1993; Goolsbee and Syverson 2019), university rank (Kim et al. 2009) and attributes such as race or gender (Gordon et al. 1974; Hoffman 1976), including a more recent focus on finance (Sherman and Tookes 2022). By focusing on the Finance-academia wage premium, this paper focuses on across-field heterogeneity in compensation, proposes a novel mechanism through spillovers from the industry, and suggest channels through which this relationship emerges.

Third, our paper relates to the literature on rent sharing between employers and employee, often tied to restrictions on the supply of skilled labor (Sauvagnat and Schivardi 2022), and how employees can be rewarded for talent (e.g. Guadalupe 2007; Terviö 2009) or luck (Bertrand and Mullainathan 2001; Davis and Hausman 2020). Specifically, this study explores differences in rent-sharing and returns to talent across academic fields.

The paper is organized as follows. Section 2 provides stylized facts on finance academics' pay. Section 3 provides facts consistent with a spillover from finance industry wages to academia. Section 4 explores the role of faculty supply in the transmission of the industry spillover effect. Section 6 concludes.

2 Stylized Facts: The Finance Academia Wage Premium

In this section, we provide a comprehensive analysis of the levels, trends, and distribution of wages in finance academia compared to other academic fields.

2.1 Constructing Data on Faculty Compensation by Fields

We focus our analysis on research tenure track faculty in both private and public US universities. We define "universities" as any post-secondary institutions that award bachelor degrees. Hence, we do not include community colleges, which typically grant 2-year degrees. Within university faculty, we focus on *research* tenure-track faculty, as they are central to the university mission and governance through their research, teaching and administrative roles.

2.1.1 Faculty Wages in Public Universities

To collect a broad dataset of wages for research tenure-track faculty across fields, we first perform public record requests across US states. State-level freedom of information laws guarantee the right to access records maintained by state agencies. We conduct these requests in all the states where 1/ post secondary institutions are not exempt from disclosing information, 2/ the right is granted to anyone, and not only to citizens of the state. We request data over the longest time period possible, which varies depending on the state legal framework relative to the freedom of information laws. The scope of data coverage differs also across states and universities, with some providing information on all university employees, not exclusively on faculty.

We receive answers from 32 states covering 290 universities over the 2004-2018 period. In 2019, these universities enrolled about 2.8 million full time undergraduate students, corresponding to 33% of all the students enrolled in four year programs in the U.S. at this date (IPEDS 2019). This sample includes 11 of the 15 states with the largest university systems in the US, i.e., California, Ohio, Florida, New York, Georgia, Texas, Utah, New Hampshire, Illinois, Arizona, and Michigan. Table A1 in the Internet Appendix lists the states and sample periods that this sample covers.

We successfully gather data on approximately 400,000 academic employees working in U.S. public universities spanning the 2010-2018 period, amounting to a total of 1.25 million observations. This public wage dataset includes each individual's first name, last name, base salary, total compensation, position, and affiliated university. *Base salary* includes the 9-month wage in most cases, while *total compensation* includes the summer stipend and bonuses. We have information on the base salary for around 75% of our observations.

2.1.2 Categorizing Faculty by Academic Fields in Public Universities

A significant challenge in our analysis involves identifying research tenure-track faculty within our sample of public university employees and determining their respective academic fields, as a large set of the compensation data we obtain from states through public record request does not include this specific information.

To address this challenge, we link individuals in the public university dataset to academic authors identified from Scopus, one of the leading multidisciplinary citation databases globally. Scopus' comprehensive coverage is unique, indexing articles from thousands of peer-reviewed journals, conference proceedings, trade publications, and patent records.[5] For every author, Scopus offers a wealth of information, including the total number of publications, cumulative citations, the h-index – a metric that quantifies both the productivity and citation impact of an individual's publications –, and historical affiliations dating back to their first publication.

We classify individuals in our public university dataset as research faculty if we can link them to Scopus, using Scopus' classification to identify their academic fields. Scopus assigns authors' academic disciplines based on their publication history. For law faculty, we additionally utilize departmental information from Scopus. Given that Scopus categorizes law within the humanities, we identify law faculty based on the departmental designation, which typically specifies the law school's name.[6]

We arrive at a sample of 66,800 research tenure-track faculty from US public universities with information on their field, wage and research output following

[5] We prefer Scopus over Web of Science due to its broader scope in covering various disciplines and sources.

[6] We refrain from using departmental information to assign academic fields for disciplines other than law, as department names often encompass multiple fields. Examples include broad labels such as 'Faculty of Arts and Science', 'Economics, Finance, and Entrepreneurship', or 'Business School.'

the following linking strategy. First, as we could not download information from Scopus for the full sample of academic employees due to downloading limitations, we select a 50% random sample of academic employees in our wage dataset. Next, we drop observations in Scopus corresponding to non-unique combination of first name and last name within the same university and year, as we cannot uniquely identify Scopus author's profiles for such individuals (less than 2% of total observations). Finally, we drop visiting, retired and teaching track faculty, often identified as "instructors," "lecturers," "part-time," "visiting," " emeritus," "adjunct," "teaching," "practice," and "clinical" professors in our data.

2.1.3 Identifying Finance Faculty

A limitation of Scopus that we address in our study is its categorization of economics and finance into one single field labeled as "Econ," and the merging of business, management, and accounting into another combined field, "Business." To accurately differentiate finance and accounting professors from these broader categories, we implement a two-step process.[7]

First, we exploit individual-level information on academic fields extracted from the James Hasselback's faculty directory.[8] For over 35 years, this directory has compiled comprehensive information on faculty members in Accounting, Finance, Marketing, Economics, and Management departments across approximately 700 U.S. public and private institutions. For each faculty member, the directory includes details such as their specific field, department affiliation, position, year of PhD completion, and PhD alma mater.

We link the James Hasselback' 2016-2017 accounting directory, the 2019-2020 finance directory, and the 2006-2007 economic directory with our public university dataset, thereby identifying 3,558 Accounting, Finance, Economics, and Management Sciences professors in our public university wage data. Hence, we identify the exact field for 60% of the faculty identified in Scopus as part of the "Econ" or "Business" fields and 10% of the initial public university data not merged with

[7] We consider finance and accounting together because they are often part of the same department, and their research agenda and teaching scope largely overlaps.

[8] http://www.jrhasselback.com/FacDir.html

Scopus from this step.

Second, for faculty listed in Scopus under the "Econ" or "Business" categories but not matched with the James Hasselback's directories, we employ their publication history to identify Finance professors. For each such professor, we calculate the proportion of their publications in finance-specific journals. We then use the James Hasselback's directories as a training set to determine an appropriate threshold that effectively identifies finance professors, aiming to minimize both type 1 and type 2 errors. Faculty in the "Econ" or "Business" categories with a publication share exceeding this established threshold – namely, 33% – are classified as Finance professors. We apply a similar methodology to single out Accounting professors, using a threshold of 43%.

Our finalized public university dataset encompasses more than 55,000 professors spanning 12 fields. Within this dataset, we distinctly categorize Finance and Accounting, Economics, and Management Sciences.[9] The other fields included in our analysis are Computer Sciences, Engineering, Humanities, Law, Life Sciences, Mathematics, Medicine and Healthcare, Physics, and Social Sciences.

2.1.4 Faculty Wages and Fields for Private and Other Public Universities: Immigration Data

We complement our public university dataset with information on faculty from *private* and other public universities using green card and H1B application data, thereby leveraging the large share of faculty employed in US universities that are not U.S. citizens. According to the National Study of Postsecondary Faculty, 17% of academics on tenure track positions but not tenured are not U.S. citizens. The U.S. Department of Labor (DOL) makes the permanent residence and H1B applications publicly available on its Employment and Training Administration webpage (Shen 2021).[10]

We build an anonymized dataset of faculty wages, positions and fields using the H1B or green card application data in the following way. H1B or green card

[9] Management Sciences encompasses all business-related fields excluding finance and accounting, such as marketing, strategy, and operations.

[10] Data are available at `https://www.flcdatacenter.com/`.

application data includes anonymized data on yearly wages, demographics, country of birth, occupation, position and employer identity for all applicants. We identify academic employees as individuals working for a university, as indicated by the name of the employer. Next, we single out research faculty and fields using both the job title and the occupation code from the Bureau of Labor and Statistics.

We arrive at an anonymized wage dataset of more than 20,000 professors over the 2005-2017 period working across 1,280 universities that we append to our public university dataset.

2.1.5 Representativeness and Comparability of our Final Wage Dataset

Our comprehensive academic wage dataset comprises over 195,000 faculty-year observations, encompassing data from more than 75,000 professors. This dataset spans the period from 2005 to 2018 and includes faculty members working across over 1,450 universities and in 12 different academic fields.

We assess the representativeness of our final wage sample by computing the share of full-time undergraduate students, professors, and degrees covered by our sample of universities. To do so, we use data from the Integrated Postsecondary Education Data System (IPEDS) on enrolled students and professors across universities and degrees. IPEDS, compiled through annual surveys conducted by the U.S. Department of Education's National Center for Education Statistics, covers all postsecondary institutions that participate in the federal student financial aid programs.

We find that our final sample comprises universities that enrol 82% of all 2019 full-time undergraduate students enrolled in four-year colleges, and 80% of all 2019 full-time undergraduate students enrolled in Business Programs. Finally, our final sample comprises universities that cover 89% of assistant/associate/full professors working at four-year colleges in the years 2019-2020.

An additional empirical challenge in accurately quantifying wage heterogeneity across academic fields in our extensive sample is establishing a uniform measure of compensation. We address this by focusing on the 'base salary,' which is available for approximately 75% of the faculty in our data. The base salary excludes summer stipends and bonuses and is typically paid over an 8, 9, 10, or 11-month period. To standardize the base salary measure across universities, we utilize data from IPEDS, which provides details on the compensation structure of base salaries at each university. Figure A1 in the Internet Appendix illustrates the duration of base salary contracts. Notably, for over 80% of our observations, the base salary is for a 9-month period. Therefore, we standardize our base salary measure to reflect a 9-month contract across all universities. We view this approach as conservative as we do not take into account summer support, which, if allocated uniformly across fields, would scale up the absolute wage heterogeneity across fields. We believe that relative differences should remain largely unaffected by this decision.[11]

Table 1 provides summary statistics of faculty wages by field, position, university rank, type and location. Unconditionally, we observe higher pay in Finance and Accounting, with Law and Medicine also ranking high. Full professors, faculty in high rank universities, and located in large cities, also earn higher wages.

INSERT TABLE 1 HERE

2.2 The Finance-Academia Wage Premium

We now investigate wage heterogeneity across academic fields controlling for observable characteristics and potential composition effects arising from our unbalanced panel. To do so, we employ the following specification, using Humanities as the reference field:

$$\ln(w_{i,t}) = \sum_{f=1}^{n} \beta_{field_f} \mu_{field_f} + \eta_{university,t} + \gamma_{rank_i} + \epsilon_{i,t}, \tag{1}$$

where $w_{i,t}$ is the 9-month base salary of faculty i in year t, μ_{field_f} are field indicator dummies for all fields except humanities. $\eta_{u,t}$ are university times year fixed effects and γ_{rank_i} are academic rank/position fixed effects controlling for composition effects across fields. We differentiate assistant, associate and full professors, accounting respectively for 37, 26 and 38% of our observations. Standard errors

[11] Robustness checks conducted on the subset of our sample for which total compensation data is available yield consistent results.

are double clustered at the university and year levels.

Figure 1 plots the $1 + \beta_{field}$ coefficients across fields along with their 95% confidence intervals. Finance ranks as the highest paying field, offering a 75% wage premium over Humanities, which is identified as the lowest paying field. The premium in Finance is also significantly higher compared to related disciplines like Management Sciences and Economics. Consistent with our unconditional statistics, other fields with relatively high wages include Law, Medicine, and Computer Sciences.

INSERT FIGURE 1

Next, we quantify the Finance academia wage premium more precisely by estimating the following specification:

$$\ln(w_{i,t}) = \beta \mathbb{1}_{Finance} + \eta_{u,t} + \gamma_{rank_i} + \epsilon_{i,t}, \tag{2}$$

where $\mathbb{1}_{Finance}$ is an indicator variable for faculty in Finance. Other variables are the same as in equation (1). Standard errors are double clustered at the university and year levels. We also explore the distribution of this premium along faculty rank and university characteristics by splitting our sample along these dimensions.

Table 2 reports the results from this analysis. The wage premium amounts to 51% on average for Finance faculty, as Column 1 indicates. This premium is the largest for assistant and associate professors, at 56% and 50%, respectively, and is significantly lower for full professors, or professors with more than 20 years of experience, at 40% (Columns 3 to 6). When investigating the premium across university characteristics, it is higher for top 50 universities according to the U.S. News ranking (Column 7), as well as for R1 universities (Column 8), i.e., for universities with very high research activities according to the Carnegie Classification of Institutions of Higher Education.

INSERT TABLE 2

As a robustness check, Table A2 in the Internet Appendix replicates the same analysis using total compensation, which includes summer stipends and bonuses, instead of the base salary. While the size of the sample is smaller, we find similar estimates of the Finance academia wage premium.

2.3 The Finance-Academia Premium across the Wage Distribution

We investigate disparities within Finance academia by estimating the Finance-academia premium across different segments of the wage distribution. Our aim is to determine whether the premium is largely earned by a small percentage of Finance faculty at the top or bottom of the distribution, or is a broader phenomenon affecting Finance professors at all levels. This analysis provides insights into the labor market dynamics and bargaining power within the Finance academic field.

To do so, we split observations across wage quintiles within each field and faculty rank (assistant, associate and full). We then estimate the following model:

$$\ln(w_{i,t}) = \sum_{i=1}^{5} \beta_i q_i + \sum_{i=1}^{5} \beta_{i,Finance} q_i \times \mathbb{1}_{Finance} + \eta_{university,t} + \gamma_{rank_i} + \epsilon_{i,t}, \qquad (3)$$

where $\mathbb{1}_{Finance}$ is an indicator variable for Finance faculty and $\mathbb{1}_q$ are quintile fixed effects. The terms $\eta_{university,t}$ and γ_{rank_i} account for university and year fixed effects, and rank or position fixed effects, respectively. Standard errors are double-clustered at the university and year levels.

Figure 2 plots the regression coefficients $\beta_{q,finance}$ along with their 95% confidence intervals. Our findings indicate that the Finance-academia wage premium increases progressively along the wage distribution, from around 30 to 60%, and plateaus towards the upper end. This increase of the Finance-academia premium across the wage distribution is similar to what we observe in the finance industry, as documented in the literature (Bell and Van Reenen 2014; Kaplan and Rauh 2010; Philippon 2010). However, academia differs from the industry in one dimension: while the finance industry's wage premium is mostly concentrated among the very top earners, in academia, the wage premium is flat within the top 20% of the wage distribution. We confirm the skewness of the wage distribution in the Finance industry over our sample period, i.e. 2010-2018, using data from the American Community Survey. Results are displayed in Table A3 and Figure A5 in the Internet Appendix.

INSERT FIGURE 2

2.4 Evolution of the Finance-Academia Premium

We now investigate the evolution of the Finance-academia wage premium over our sample period. To do so, we estimate the following model :

$$\ln(w_{i,t}) = \sum_{y=2010}^{2018} \beta_t + \sum_{y=2010}^{2018} \beta_{t,Finance} \times \mathbb{1}_{Finance} + \eta_{university,t} + \gamma_{rank_i} + \epsilon_{i,t}, \quad (4)$$

where $\mathbb{1}_{Finance}$ is an indicator variable for finance. Fixed effects are the same as in equation (1). Standard errors are double clustered at the university and year levels.

Figure 3 displays the regression coefficients $\beta_{t,Finance}$ along with their 95% confidence intervals. For comparison, we also plot the evolution of the finance-industry wage premium, that we estimate using data from the American Community Survey. We observe a significant and comparable upward trend for both the finance academic wage premium and its counterpart in the industry, with both premia increasing by at least 10 percentage points over the sample period, or 20% of the premium in 2010.

INSERT FIGURE 3

3 Heterogeneity in Academic Output: Student Earnings and Research Productivity

This section explores the 'production function' of academics across fields, specifically investigating the key academic outputs as reflected by demand. We identify two primary drivers of demand for faculty across universities and fields. The first driver is the demand for specific college majors, which correlates with student potential earnings. The second one is the demand for particular universities, which varies with university ranking and prestige. The latter correlate with university research impact. Therefore, we investigate patterns in student future earnings and research impact across fields.

3.1 Student Future Earnings across Fields

A rich literature documents how earnings levels (Arcidiacono 2004; Wiswall and Zafar 2014, 2015), trajectories (Hampole 2023), and risks (Nielsen and Vissing-Jorgensen 2006; Bonin et al. 2007; Dillon 2018; Saks and Shore 2005) affect occupational and education choices. We complete the existing literature by investigating the level and distribution of wages returns to college education across fields, with a special focus on Finance.

3.1.1 Data on Wages across Education Fields

We collect information on wages across educational backgrounds from the American Community Survey over the period 2009-2019. Conducted by the U.S. Census Bureau, this ongoing monthly survey reaches over 3.5 million households in the U.S., gathering information on education, employment, family situations, and demographic characteristics. In addition to information on the highest level of education, yearly income, and demographics, the survey provides key information on the undergraduate field of study.

To build our sample, we utilize the multi-year file covering 2009-2019, which encompasses approximately 6 million observations. We refine this dataset by including only workers who possess at least one undergraduate degree, are aged between 23 and 67 and are residents from all 50 states and the District of Columbia. This process results in a final sample of about 3.6 million U.S. individuals.

For our main analysis, we restrict the sample to individuals with at least a master degree, reflecting the fact that research faculty predominantly teach and mentor graduate students. This criterion results in a sample of approximately 1.7 million individuals. Of these, 91.5 percent report having at least one undergraduate major. We exploit this data on undergraduate majors to categorize individuals into various fields of study, employing the Classification of Instructional Programs system developed by the National Center for Education Statistics.

Panel A in Table 3 provides summary statistics of student wages by education field. One limitation with the data from the American Community Survey is that it is top coded: Wages in the ACS above 99.5% in a state are replaced with the average wage in this state among all observations above 99.5%.

INSERT TABLE 3 HERE

3.1.2 Student Future Earnings across Education Fields

We compute work-life earnings across education fields using the following simple formula:

$$\text{Total Work-life Earnings}_f = \sum_{\tau=23}^{67} \beta_\tau \omega_{\tau,f} \tag{5}$$

where $\omega_{\tau,f}$ is the yearly income of a worker of age τ who graduated from field f. We assume $\beta = 1/(1 + 3\%)$, accounting for a 3% yearly discount rate. We obtain the wage values $\omega_{\tau,f}$ from the residuals of a wage regression that includes a large set of controls such as gender, race, ethnicity and survey-year fixed effects. We calculate $\omega_{\tau,f}$ using the average residuals within each field f and age τ cell.

Figure 4 plots the expected life-time earnings versus faculty relative wage across fields. We observe a correlation of 0.70 between professors' pay and the expected future wages of their students across fields. As a robustness check, Figure A7 in the Internet Appendix plots the same graph using a broader sample of individuals from the American Community Survey, including also individuals with a bachelor degree only. We observe a positive but smaller correlation of 0.56 between professors' pay and student expected earnings across fields.

INSERT FIGURE 4

In a second analysis, we follow Philippon and Reshef (2012) to take into account the riskiness of wage profiles. To do so, we assume that individuals are risk averse and compute the value of a career after graduating from field f as follows:

$$\text{Utility}_f(0) = \mathbb{E}\Big(\sum_{\tau=23}^{67} \beta^{\tau} u(\mathrm{w}_{\tau,f})\Big) \tag{6}$$

We assume a constant relative risk-aversion utility function $u(c) = \frac{c^{(1-\rho)}}{(1-\rho)}$, with $\rho = 2$.

3.1.3 Wage Skewness across Education Fields

The average wage in a labor market depends both on the average level of productivity and on its skewness. Indeed, models of competition for talent (Glode and Lowery 2016; Gabaix and Landier 2008) and superstars (Rosen 1981) show how skewed levels of productivity can lead to higher wages through firms competing for a limited pool of workers. We therefore explore the wage skewness across educational backgrounds.

To do so, we split student wages across percentiles within education fields. We then compute the share of the total wage bill within each education field and percentile share.

Panel A in Figure 5 plots the share of the total wage bill across percentiles for the finance graduates and other workers. We observe a higher skewness in the wage distribution for students who graduate from a finance major.

INSERT FIGURE 5

Our results are consistent with Kaplan and Rauh (2010) and Bell and Van Reenen (2014), who find that the increase in the finance wage premium is concentrated at the top percentiles of the wage distribution.

Finally, Figure A9 in the Internet Appendix plots the number of billionaires across industries. We observe that the finance industry has the highest number of billionaires, close to 600, then followed by technologies and manufacturing.

3.2 Research Productivity

Research productivity is a key academic output for universities for several reasons. First, it aligns with their core mission of higher education. Engaging in the advancement of knowledge and pushing the boundaries of innovation are central to a university's raison d'être. This justifies the funding they receive from government agencies, as well as public and private grants. In addition, research can play a significant role in informing public policy, thereby extending the university's impact. The research output of a university's faculty is also a critical component in academic rankings and assessments, which matter to attract students.

3.2.1 Data

We rely on the Scopus data that we have linked with 50% of our public university dataset by faculty name and institution. The Scopus data includes a unique author identifier, the article's title, the journal's name, coauthor names, and the date of publication, and citations data. Scopus also includes books from more than 30 major publishers, as in some fields, such as Humanities, research output consists mostly in books.

INSERT TABLE 5

Table 5 presents summary statistics on the h-index, number of citations, and publication counts across fields. In Finance, the average number of citations, h-index, and publications are 275, 5, and 11, respectively. In contrast, these figures significantly increase in Physics, reaching 2,936 for citations, 21 for the h-index, and 106 for publications. This disparity highlights the heterogeneity in the research production function across different academic fields.

3.2.2 Skewness in Research Impact

As comparing research production levels across fields is not relevant, we focus on investigating the heterogeneity in the distribution of research impact. Our objective is to determine whether, in some fields, a small number of professors disproportionately accumulate a larger share of research impact compared to other fields.

To examine this, we categorize faculty within each field into citation percentiles and calculate the percentage of total field citations that each percentile represents. To control for composition effects, we limit our sample to R1 universities only. The results, depicted in Figure B in 5, suggest that skewness in research impact is more pronounced in Finance than in other fields on average.

To further validate this observation, we compute the proportion of faculty responsible for 90% of the citations within each field. We find that in Finance, 38% of the faculty account for 90% of all citations, a statistic similar to those in Management Sciences and Medicine. In contrast, in fields like Computer Sciences, Engineering, and Physics, a larger proportion of the faculty (44%, 44%, and 49%, respectively) are responsible for 90% of the citations. In fact, only in Law, Social Sciences, and Humanities, a smaller percentage of faculty (29%, 31%, and 34%, respectively) make up this citation share.

This relatively high skewness might be partly driven by Finance faculty competing to publish in a limited number of top journals.

3.3 University Revenue per Faculty

We now investigate whether students' relatively high future earnings in Finance translate into higher revenues per faculty. We identify and investigate three sources of university revenues: tuitions, donations, and grants.

3.3.1 Tuition revenue per professor

Data We collect data on tuitions across academic programs at the graduate and undergraduate levels for Internet sources. We complete this dataset with information on the number of students per program and university using data from IPEDS. Finally, the number of research-faculty per field is from our dataset.

We compute the average tuition revenue per research-faculty in field f and university u the following way:

$$\text{Tuition/Faculty}_{f,u} = \frac{\sum_{p=1}^{N} \text{Tuition}_p \times \#\text{Students}_p}{\#\text{Faculty}_f} \tag{7}$$

Results Panel A in Figure 6 displays the results. We observe a positive correlation between the average tuition per research faculty and faculty relative wage. Tuitions per research faculty are twice higher in Finance than in other fields on average.

INSERT FIGURE 6

3.3.2 Donations

Donations are an important source of revenues for universities both through immediate use and endowment accumulation. This source of revenue is particularly important for the high research intensity universities. Thus, as per 2015, the top 10 largest public universities endowment total USD $76 bn.

The high level and skewness of student life earnings in Finance can affect the level of donations. Indeed, the literature shows that donors give to their alma mater first, in part to confirm their "sense of identity" (Akerlof and Kranton 2000), hence increasing their utility.

Data We obtain data on donations from the Chronicle of Philanthropy's database, which lists all donations in the U.S. exceeding 1 million dollars. This database provides detailed information, including the value of each donation and a textual description of its intended purpose. Our focus is on donations made to U.S. post-secondary institutions during 2005-2018. We then conduct a textual analysis to identify the academic fields benefiting from these donations.

Table A4 in the Internet Appendix provides summary statistics on all donations above $1 million received by universities over the 2005-2018 period. We observe that after Medicine, Finance receives the highest amount of donations.

Results We calculate donation per faculty (scaled) in field f as follows:

$$\text{Donation per Faculty}_f = \frac{\frac{\text{Sum of all donations}_f}{\text{Sum of all donations}}}{\frac{\#\text{ professors}_f}{\text{Total }\#\text{ professors}}} \tag{8}$$

We scale donation per faculty to the total number of faculty in our data as our dataset does not cover the universe of research faculty.

Panel B in Figure 6 compares the donation per faculty (scaled) across academic fields. Donation per research faculty is significantly higher in Finance than in other fields, including other business fields.]

4 Faculty Wage Returns to Academic Output

This section explores the elasticity of faculty wages to academic output, quantified in terms of students' future earnings and research impact, across academic fields. Our findings indicate that the documented wage premium in Finance academia correlates with higher returns to both students' future wages and research output within this field.

4.1 Higher Returns to Student Earnings in Finance Academia

We first investigate the elasticity of faculty wages to their students' earnings in Finance compared to other fields. This analysis employs data on student earnings across both academic fields and universities.

4.1.1 Data

A significant challenge in this analysis is accessing data on student wages that includes detailed information on both their universities and fields of study, a gap in the American Community Survey data. To address this, we utilize the College Scorecard dataset provided by the U.S. Department of Education.[12]

Launched by the Obama administration, the College Scorecard is a publicly available dataset maintained by the U.S. Department of Education that provides

[12] `https://collegescorecard.ed.gov/data/`

information on institutional characteristics for nearly all colleges and universities in the U.S. Of particular interest for this study, the Scorecard makes available early-career (i.e., six to 10 years following entry) earnings data maintained by the U.S. Department of Treasury for all students who received federal financial aid during college. Earnings are defined as the sum of wages and deferred compensation, and are extracted from tax forms indicating wages paid to employees and the taxes withheld from them (W2 forms). Although the Scorecard data are limited to federal financial aid recipients, prior research shows that median earnings of financial aid recipients is not statistically different from the median earnings of other students (Looney 2017; Mabel et al. 2020).

The Scorecard includes a range of earnings outcomes for each institution. At the university level, the dataset reports earnings over different time horizons, spanning from six to 10 years after students attended the college. This includes both the mean and median of the earnings distribution for students who are no longer enrolled in any postsecondary institution, irrespective of whether they completed their program. For larger institutions, the dataset extends to include the 10th, 25th, 75th, and 90th percentiles of the earnings distribution. However, when it comes to data at both the university AND field levels, the Scorecard data includes only the median of the earnings distribution one year post-graduation.

In our main analysis, we focus on the median wage data at the university and field levels, which includes 11,856 observations covering 2,260 universities from our sample. Panel B in Table 3 provides summary statistics on this dataset.

We complete this dataset with information on graduate student wages from the Survey of Earned Doctorates, an annual census conducted by the National Center for Science and Engineering Statistics. Specifically, we use information on the median expected annual gross wage of U.S. doctorate recipients in 2018 who had definite post-graduation plans for employment in industry or business sectors.

4.1.2 Results

Figure 7 suggests that faculty wages are more sensitive to student future wages in Finance than in other fields. For each field, we plot a graph where each dot represents one university. The X-axis is the relative wage premium *students* enjoy in this university (and field), while the Y-axis is the relative wage premium *faculty* enjoy in this same university (and field). Both premia are relative to the overall field average.

The graphs displayed in Figure 7 reveal a positive correlation between faculty and student pay across universities in three fields: Finance, Computer Sciences, and Humanities. Figure A11 in the Internet Appendix confirms that this positive correlation extends across other fields.

In addition, the correlation coefficient, which amounts to 0.5, is significantly higher in Finance compared to other fields, including high-paying ones such as Computer Sciences. It suggests a higher elasticity of Faculty pay to student wages in Finance than in other fields.

INSERT FIGURE 7

We confirm this result by running the following specification:

$$\ln(w_{i,t}) = \beta \ln(w_{f,u,t}) + \beta_{Finance} \ln(\omega_{f,u,t}) \times \mathbb{1}_{Finance} + \mu_f + \mu_u + \mu_t + \mu_p + \epsilon_{i,t} \quad (9)$$

where $w_{i,t}$ is the yearly gross wage of faculty i in year t, while $\omega_{f,u,t}$ represents the university median student wage premium in field f, in %. $\mathbb{1}_{Finance}$ denotes an indicator variable for being a Finance faculty. μ_f, μ_u, μ_t and μ_p are field, university, year and position fixed effects, respectively. Standard errors are double clustered at the university and year levels.

Table 6 displays the coefficients β and $\beta_{Finance}$, which document the average sensitivity of academic pay to student wages across all fields and the incremental elasticity in Finance, respectively. Academic wages appear to be significantly more sensitive to both undergraduate and graduate student wages in Finance than in other fields, as Columns 2 and 4 document for undergraduate and master students, respectively.

More precisely, the coefficients β and $\beta_{Finance}$ of the variables $StudentWage_{u,f}$ and $StudentWage_{u,f} \times \mathbb{1}_{Finance}$ indicate returns to undergraduate and graduate student wages that are three times higher in Finance than in other academic fields.

Graduating from a university that has a 10 percentage points higher median wage premium at graduation is associated with a 6% higher wage for Finance faculty, while this gap is only 2% for faculty from other fields. In addition, including the interaction term $StudentWage_{u,f} \times \mathbb{1}_{Finance}$ results in the Finance-academia premium dropping from 40% to 8% and being no longer significant (Column 2). The Finance-academia wage premium is therefore allocated across faculty mostly according to the pay of their students.

In addition, Columns 5 and 6 indicate that this elasticity is also high in the other top paying fields, Economics and Management Sciences, also partly absorb the premium, while not being as high as in Finance. Therefore, Finance faculty obtain a larger share of the surplus obtained by their students. This could reflect a higher competition for faculty talent, if we assume that faculty talent is either correlated or causally related to students outcomes on the job market.

INSERT TABLE 6

4.2 Higher Returns to Research Output in Finance Academia

We study whether returns to research output are higher in finance than in other disciplines. To do so, we exploit the Scopus data on research output described in Section 3. As the research production function varies across fields, we compare returns to within field research output quintiles, rather than to research production levels.

We exploit three measures of research output: citation counts, h-index and i10 index, which measures the number of publications with at least 10 citations. For each measures, we compute within field and rank quintiles and run the following specification:

$$\ln(w_{h,t}) = \sum_{i=1}^{5} \beta_i q_i + \sum_{i=1}^{5} \beta_{i,Finance} q_i \times \mathbb{1}_{Finance} + \mu_f + \mu_u + \mu_p + \mu_t + \epsilon_{h,t} \quad (10)$$

where q_i corresponds to the citation, h-index or i-10 quintile i within a given field.

Figure 8 plots the coefficients $1+\beta$ and $1+\beta+\beta_{Finance}$ across quintile i for citation counts (Panel A) and h-index (Panel B).

INSERT FIGURE 8

We confirm this result by running the following specification:

$$\ln(w_{i,t}) = \beta \text{Quintiles}_i + \beta_{Finance} \text{Quintiles}_i \times \mathbb{1}_{Finance} + \mu_f + \mu_u + \mu_t + \mu_p + \epsilon_{i,t} \quad (11)$$

where $w_{i,t}$ is the yearly gross wage of faculty i in year t, while $Quintiles_i$ represents the within field research output quintiles of faculty i. $\mathbb{1}_{Finance}$ denotes an indicator variable for being a Finance faculty. μ_f, mu_u, μ_t and μ_p are field, university, year and position fixed effects, respectively. Standard errors are double clustered at the university and year levels.

Table 7 displays the results.

INSERT TABLE 7

These results are consistent with the Finance-academia wage premium being allocated to the professors with a higher research impact.

4.3 PhD Pool

Our results are consistent with universities competing for a limited pool of Finance professors. The mechanism could be driven by a higher heterogeneity or skewness in research output coupled with a limited supply of PhD graduates.

Figure 9 plots the ratio of PhD graduates per faculty versus the academic placement across fields. While the share of PhD graduates with an academic career amounts to more than 70% in business fields, including finance, it is significantly lower in other academic fields.[13]

INSERT FIGURE 9

[13] A related question is why are the numbers of phd graduates across fields not adjusting for the associated job vacancies in the corresponding field in the medium to long run? While institutional rigidities or incentives might be important ingredients, we do not take a stance on the exact friction at play.

5 What Caps the Superstar Effects in Finance Academia? Evidence on University Monopsony power

Our findings align with the notion that competition for faculty contributes to the wage premium observed in Finance academia. However, unlike in the industry, we do not see evidence of "superstar effects": the premium diminishes with increasing experience and remains stable at the higher end of the wage distribution. In addition, wage returns to citations or h-index also plateau at the highest levels. This suggests changes in the bargaining power between universities and faculty along academic careers. In this Section, we explore variation in university monopsony power across fields and years of experience.

5.1 Investigating University Monopsony Power

To investigate university monopsony power across positions within each academic field, we use a reduce-form model from (Goolsbee and Syverson 2019), who estimate school-level labor supply elasticities using undergraduate lagged applications as an exogenous school-level instrument for the school-level labor demand. An increase/decrease in lagged applications resulting in an increase/decrease in the number of faculty members should not affect wages if institutions are wage-takers, but should affect wages positively/negatively if institutions have monopsony power over faculty. Our empirical model is as follows:

$$\ln(w_{i,t}) = \beta \ln(N_{u,t-1}) + \beta_{Assoc.} \ln(N_{u,t-1}) \mathbb{1}_{Assoc.} + \beta_{Full} \ln(N_{u,t-1}) \mathbb{1}_{Full} + \mu_u + \mu_p + \mu_t + \epsilon_{i,t} \tag{12}$$

where $w_{i,t}$ is the yearly gross wage of faculty i in year t, while $N_{u,t-1}$ represents the lagged undergraduate applications. $\mathbb{1}_{Assoc.}$ and $\mathbb{1}_{Full}$ denote indicator variables for being associate and full professors, respectively. μ_u, μ_t and μ_p are university, year and position fixed effects, respectively. Standard errors are clustered at the university times year level.

INSERT TABLE 8

Table 8 reports the elasticities of wages to lagged applications for several academic fields. We exclude Green Card and H1B visa holders to eliminate the potential impact of international faculty having lower bargaining power. In all academic fields except Medicine, schools appear to be wage-takers for the market of assistant professors. However, in Finance, monopsony power over associate and full professors is significantly greater than monopsony power over assistant professors, and the gap is larger than in other fields. In addition, in all other disciplines besides Medicine, only monopsony power over full professors is significantly greater than monopsony power over assistant professors. Thus, university monopsony power over faculty in Finance increases more steeply with academic rank than in other academic fields. One explanation for a steeper increase in monopsony power with academic rank in Finance may be mobility costs (Ransom 1993), for example, if Finance faculty have developed local consulting activities.

5.2 Evidence of a Lower Turnover in Finance

We exploit data from Scopus to investigate the turnover in Finance versus other fields. Figure A12 in the Internet Appendix plots the turnover rates across fields. The figure indicates a turnover of 25% in Finance, which is among the lowest, along with Economics, Humanities and Social Sciences.

6 Conclusion

This paper documents a wage premium that amounts to close to 50% for Finance professors. This premium is concentrated in the top of the wage distribution, has been increasing over the 2010-2018 period, and is higher for assistant professors and in top schools.

We investigate the underlying mechanism for the Finance-academia wage premium. Our central result is that wages in Finance academia are two to three times more sensitive to students' future wages and research output than in other academic fields. We present evidence suggesting that this higher sensitivity is related to spillovers from the high-paying Finance industry, resulting to both higher and more skewed university revenues and research impact. This dynamic fosters competition among universities for a limited pool of Finance professors.

Consequently, universities share the spillover revenues from the Finance industry to professors. This redistribution could be viewed as efficient, particularly if it ensures that the most talented professors are placed where their monetary value addition is maximized. It may also serve as an incentive to attract talented undergraduate students into academic careers in Finance. However, the relatively slower wage growth with experience in Finance, as opposed to other fields, raises questions about the long-term incentives for Finance academics. In addition, heterogeneity in academic pay might amplify distortions implied by the rising inequalities observed over the last four decades, through the allocation of academic talent within and across fields.

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7 Figures

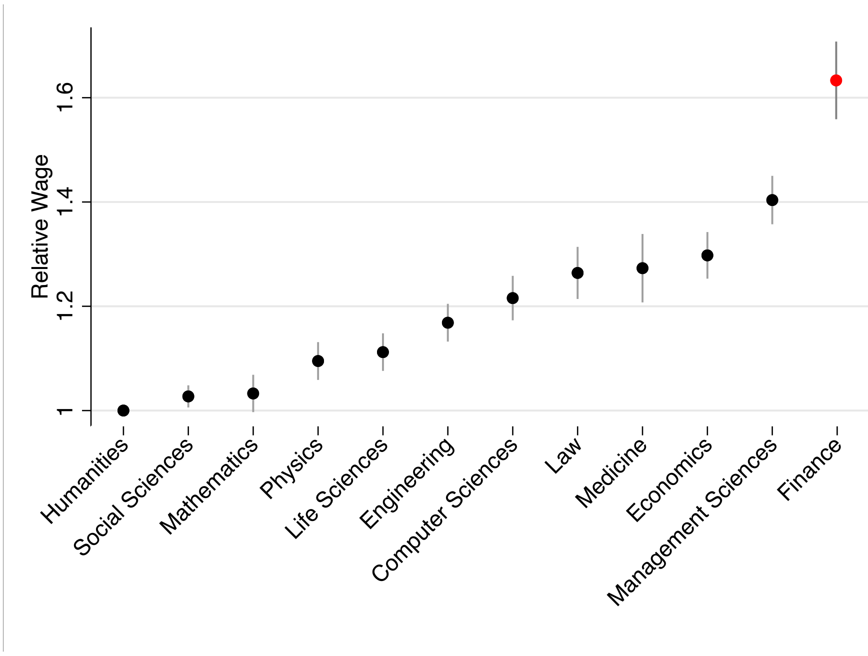


Figure 1. The Finance-Academia Wage Premium

This figure displays the wage premium of each academic field relative to humanities. It plots the coefficient of the field indicator dummies + 1 in OLS regressions in which the dependent variable is the log of the yearly gross wage that corresponds to the 9 month base salary. Each regression also includes university times year and position fixed effects. The bars indicate 95% confidence bounds based on standard errors double clustered at the year and university levels. The sample comprises 208,000 faculty-year observations from around 80,000 tenure-track faculty from public and private 4-year postsecondary research institutions in the United States in an unbalanced panel over the 2005-2018 period.

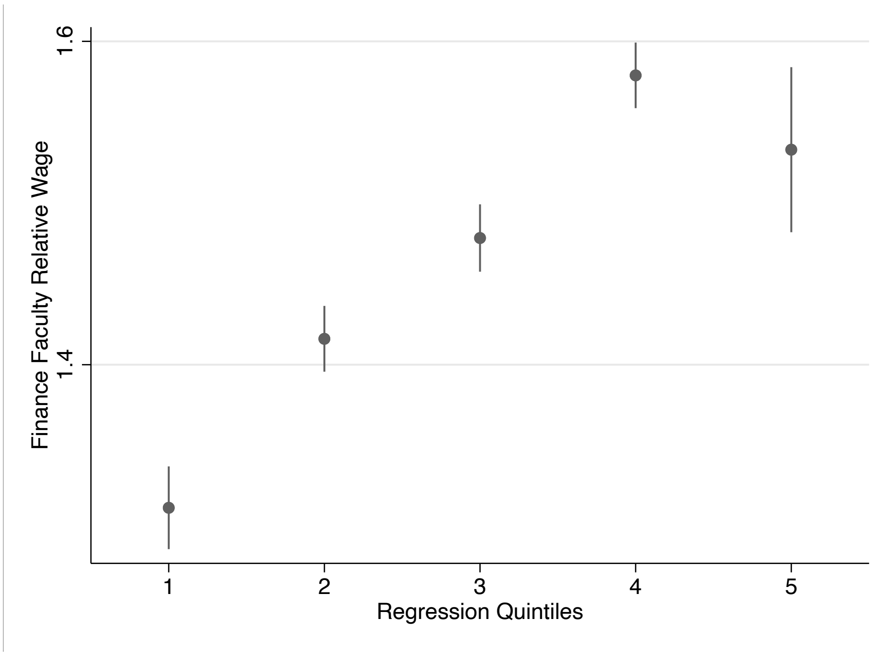


Figure 2. The Finance-Academia Premium across Wage Quintiles

This figure plots the finance academic wage premium across wage quintiles. The black dots indicate the coefficients of the finance academic field dummy interacted with quintile fixed effects + 1 in OLS regressions in which the dependent variable is the log of the yearly gross wage (9 month base salary). Each regression also includes university, year, and position fixed effects. Quintiles are computed within each field and position.

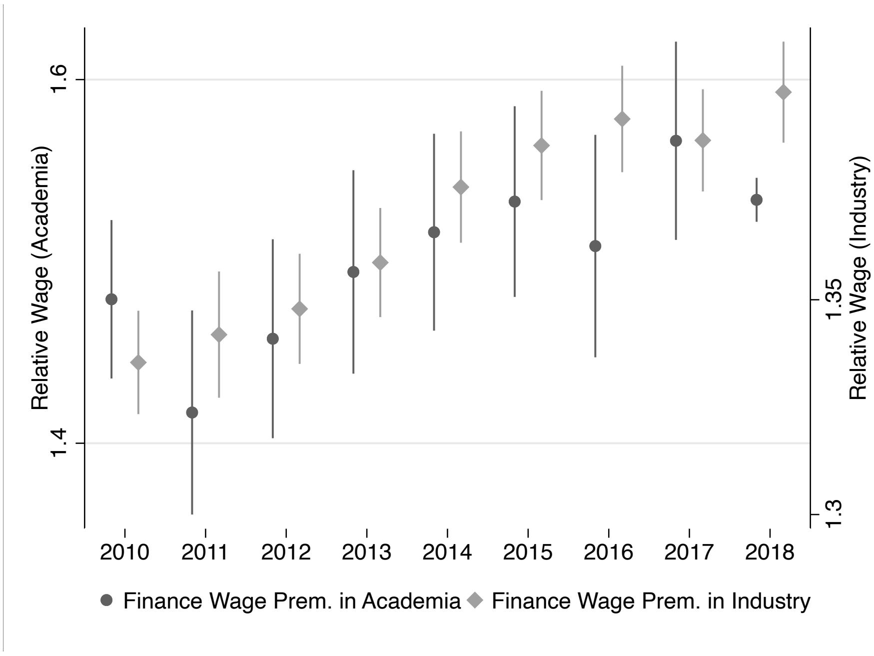


Figure 3. Evolution of the Finance-Academia Wage Premium (2010-2018)

This figure plots the evolution of the finance academic and industry premia over the 2010-2018 period. The black dots indicate the coefficients of the finance academic field dummy interacted with year fixed effects + 1 in OLS regressions in which the dependent variable is the log of the yearly gross wage (9 month base salary). Each regression also includes university times year and position fixed effects. The sample comprises 208,000 faculty-year observations from around 80,000 tenure-track faculty from public and private 4-year postsecondary research institutions in the United States in an unbalanced panel over the 2010-2018 period. The grey dots indicate the coefficients of a finance industry dummy interacted with year fixed effects + 1 in OLS regressions in which the dependent variable is the log of the yearly gross wage. We exploit data on yearly gross wage across industries from the American Community Survey (ACS). The sample consists of individuals with at least an undergraduate degree who are employed in the industry and includes approximately 6 million observations from 2010 to 2018. Individuals with industry codes 7870-7890 associated with post-secondary institutions are excluded. Finance industry is defined as industry codes 6870-6992 in the census industry classification. Each regression also includes age and levels of education fixed effects. The bars indicate 95% confidence bounds based on standard errors double clustered at the year and university levels.

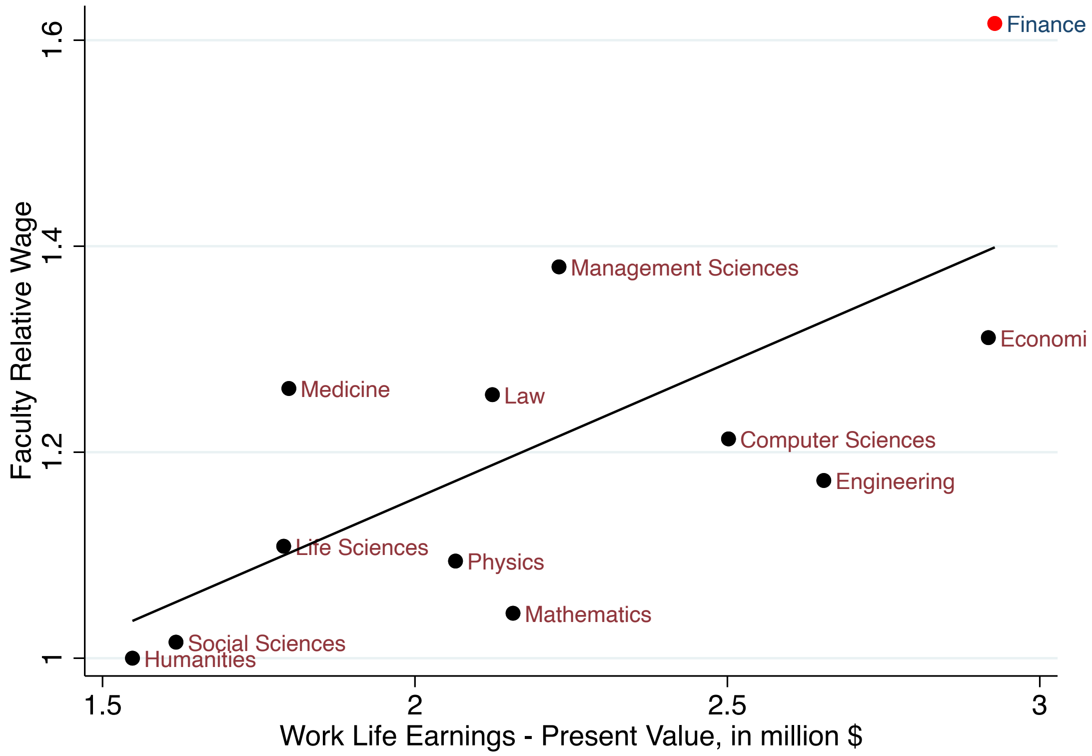
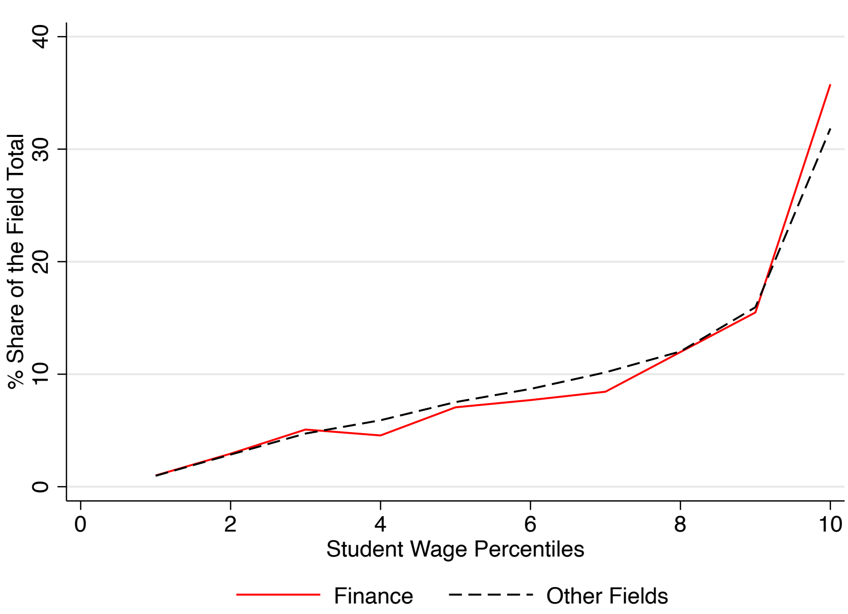


Figure 4. Faculty Wages versus Student Expected Earnings across Fields

This figure illustrates the relationship between the academic wage premium across various academic fields and the present value of graduate students' work-life earnings in those fields. We derived data on students' work earnings from the American Community Survey, which offers individual-level details on wages, demographics, and fields of study, spanning the years 2010 to 2018. For each age group within each field, we calculated the average annual income. The present value of work-life earnings represents the sum of these average incomes from ages 25 to 64, discounted annually at a rate of 3%.

Panel A. Student Future Wages



Panel B. Citations

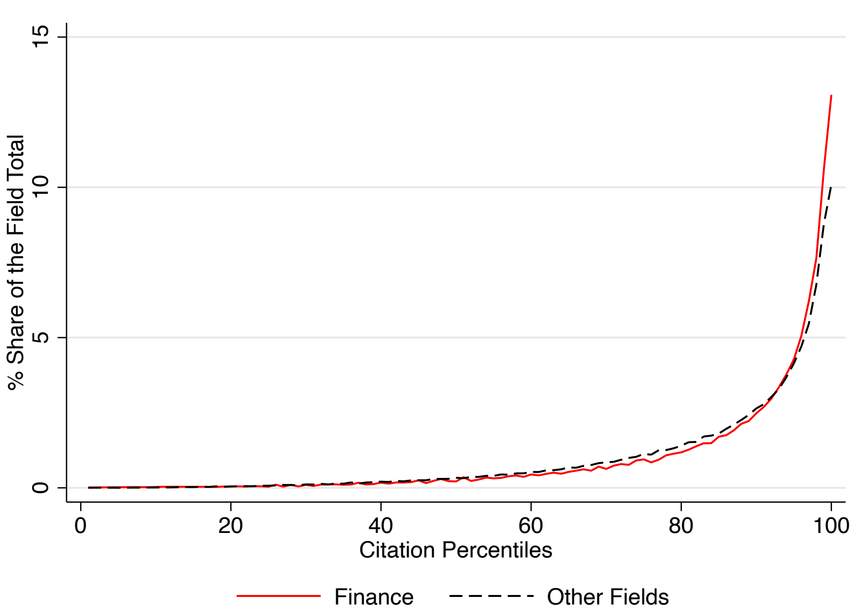
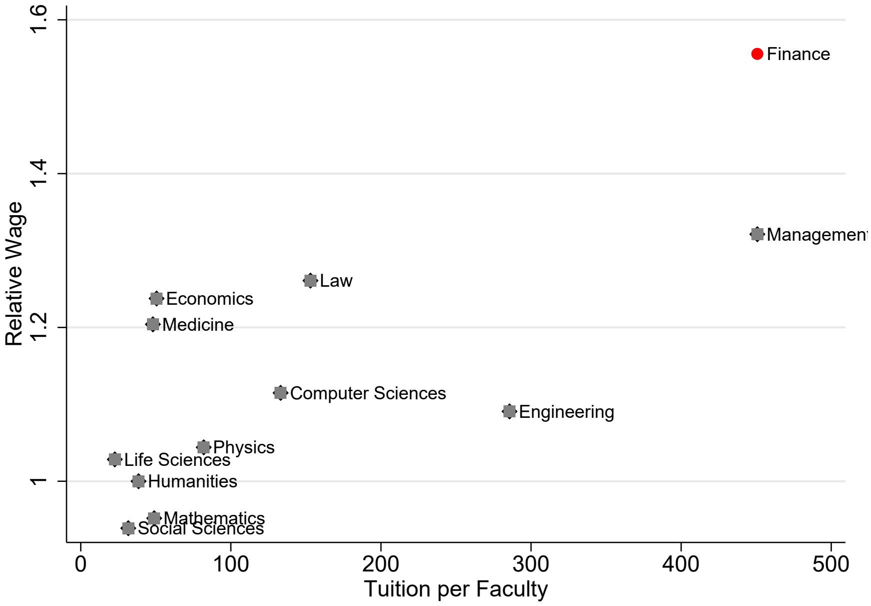


Figure 5. Skewness in the Distribution of Student Wages and Citations

Panel A splits the wage distribution into deciles across education fields and plots each decile share of field total compensation. Panel B splits citation observations into deciles across education fields and plots each decile share of field total citations.

Panel A. Tuitions



Panel B. Donations

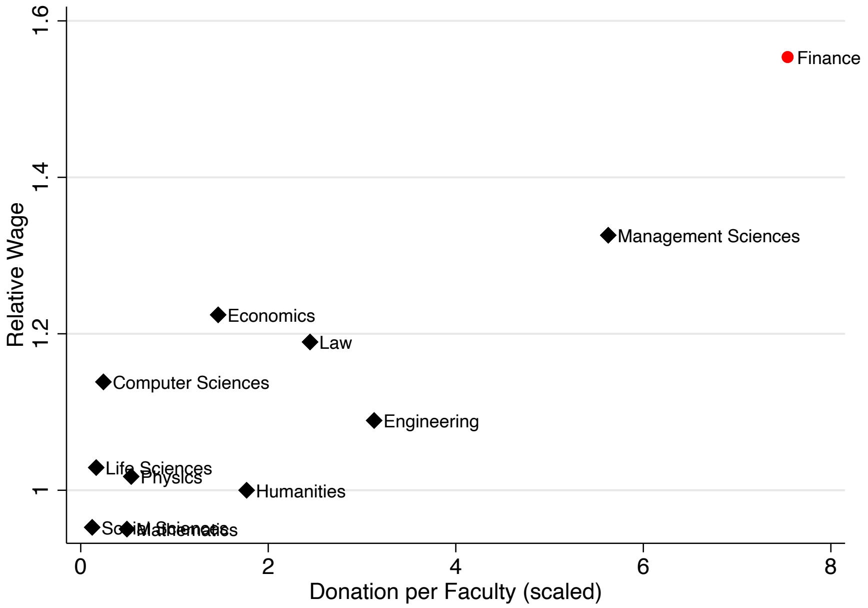


Figure 6. Faculty Wages and Per-Faculty University Revenues across Fields

Panel A illustrates the relationship between the academic wage premium across fields and tuitions per research faculty. We compute tuitions per research faculty using public data on tuitions, IPEDS data on number of students, and our dataset on the number of research faculty across field. Panel B illustrates the relationship between the academic wage premium and donations. In both Panels, the wage premium for each academic field is the same as in Figure 1. The scaled donation per faculty is the share of donations to a field relative to the share of professors in the field using our data. Donation data comes from the Chronicle of Philanthropy database of charitable gifts and includes information on all donations above $1 million made to US universities in the period 2005-2018.

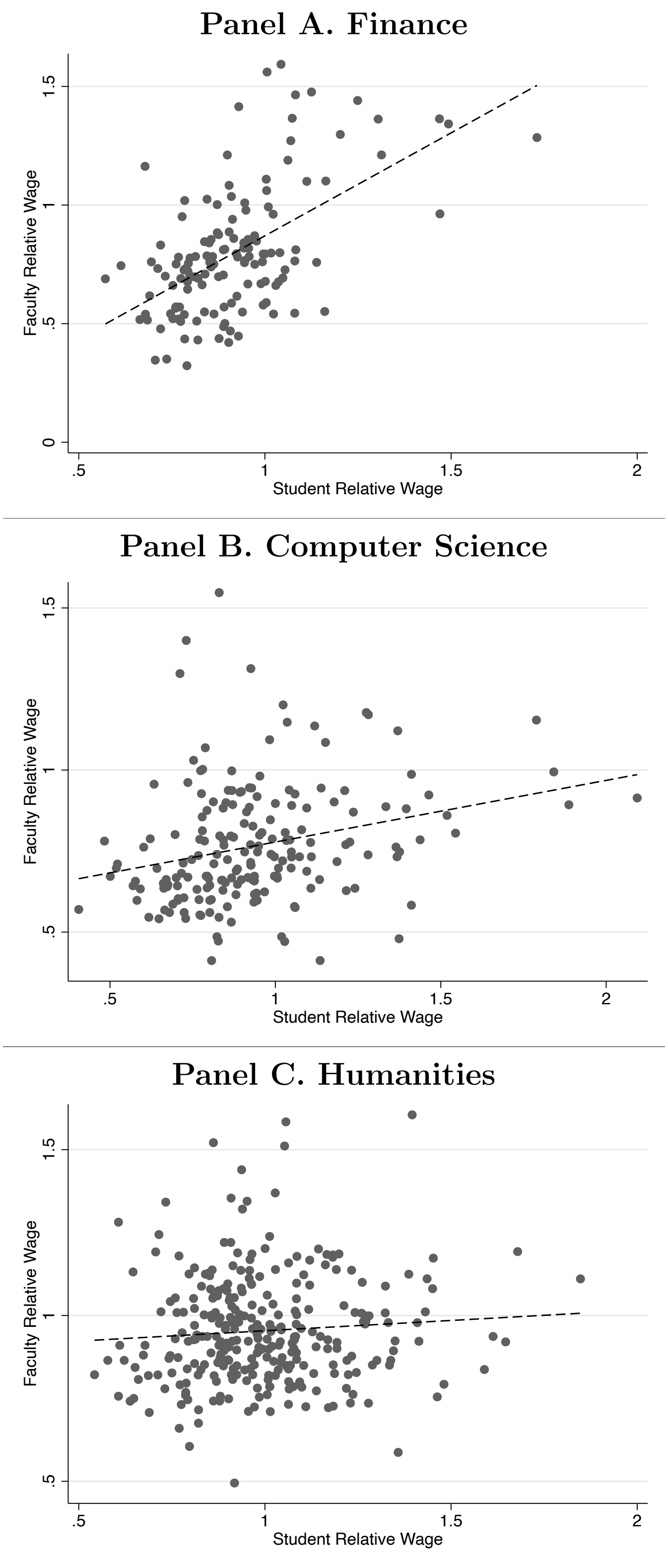
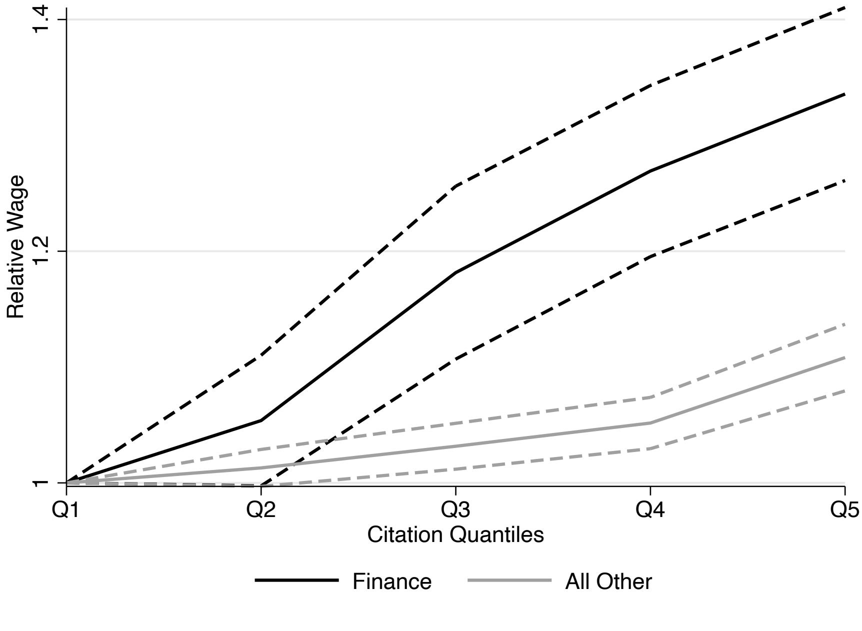


Figure 7. Elasticity of Faculty Wages to Student Wages: Across University Analysis

This figure illustrates the relationship between research faculty and their student wages across universities in the Finance, Computer Sciences and Humanities fields. Each dot on the graph represents one university. The horizontal axis represents the relative wage premium of students graduating from one university and field, while the vertical axis represents the wage premium of the research faculty in this same university and field. The university-field student wage data comes from the College Scorecard, which collects the median wage one year after graduation for each university and program.

Panel A. Citations



Panel B. Hindex

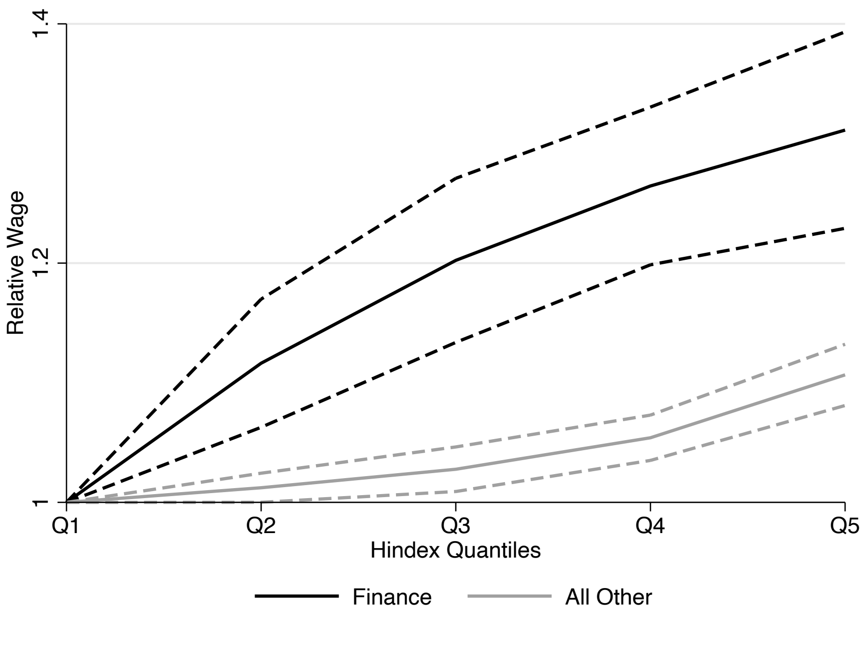


Figure 8. Wage Returns to Research Output

Panel A and B compare returns to research output in finance versus other fields. Research output is measured using citation and Hindex quintiles, in Panels A and B, respectively. Quintiles are defined within fields and positions. The graphs plot the coefficients $1 + \beta_i + \beta_{i,f}$ in black and $1 + \beta_i$ in grey in the regression $\ln(w_{h,t}) = \sum_{i=1}^{5} \beta_i q_i + \sum_{i=1}^{5} \beta_{i,f} \mathbb{1}_f q_i + \mu_f + \mu_u + \mu_p + \mu_t + \epsilon_{h,t}$. The dependent variable $\ln(w_{h,t})$ is the log of the yearly base salary. The model includes university, field, position and year fixed effects. Dashed lines indicate 95% confidence bounds based on standard errors double clustered at the year and university levels.

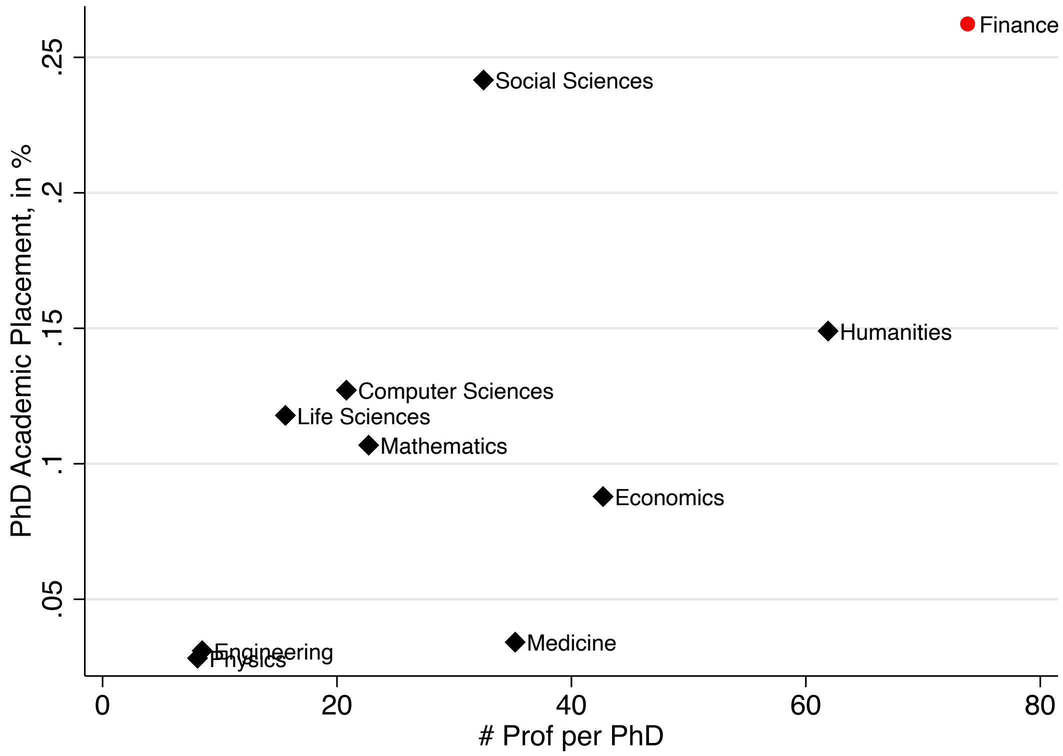


Figure 9. Supply of PhDs across Fields

This figure displays the ratio of PhD students to faculty (Panel A) and the share of academic placement (Panel B). The ratio of PhD students to professors for each field equals the total number of PhD students in this field divided by the total number of professors in this field from universities in our main sample. The share of academic placement for each field comes from the Survey of Earned Doctorates, which is an annual census conducted by the National Center for Science and Engineering Statistics.

8 Tables

Table 1. Summary Statistics: Faculty Wages

	Gross Base Salary, in 2019 $						
	Mean	**Median**	**SD**	**p10**	**p90**	**p95**	**# Obs.**
Total Sample	111,429	94,000	171,293	60,923	180,000	220,000	195,348
By Academic Field							
Finance & Accounting	169,838	153,650	70,645	92,886	265,735	300,249	5,760
Law	148,029	134,912	73,618	73,534	238,452	277,716	5,114
Medicine and Health	138,525	110,566	139,167	66,982	234,600	299,810	31,947
Management Sciences	130,080	117,195	58,911	72,626	198,730	241,700	6,764
Economics	121,906	108,014	69,227	66,646	197,303	235,817	6,287
Computer Sciences	111,985	99,666	200,604	66,200	164,462	194,817	9,971
Engineering	111,421	92,717	559,314	67,000	161,405	191,542	13,339
Life Sciences	107,756	95,189	49,725	63,007	167,898	200,000	35,357
Physics	107,297	96,452	46,671	62,100	164,326	191,717	5,976
Mathematics	93,742	82,679	42,316	56,690	145,550	173,720	9,365
Social Sciences	92,969	82,179	37,932	59,922	138,168	167,092	39,628
Humanities	83,491	71,669	83,554	54,100	123,032	151,500	21,313
By Position							
Full Professor	143,082	126,438	68,910	82,321	220,420	264,433	67,593
Associate Professor	99,223	89,080	44,606	65,308	137,800	168,960	45,663
Assistant Professor	93,655	78,460	277,224	57,000	140,750	182,000	65,049
By University Rank							
Top 50	132,168	115,000	132,040	69,380	213,100	248,101	34,904
Below Top 50	106,917	90,156	178,376	60,000	168,485	208,108	160,444
R1	125,131	106,070	95,400	67,587	203,028	245,000	104,184
Non R1	95,770	82,292	228,064	57,542	141,998	173,247	91,164
By University Type							
Public	113,022	95,767	172,533	62,256	181,307	222,200	174,681
Private	97,963	78,400	159,803	55,000	162,000	197,000	20,667

This table presents summary statistics on faculty wages across various academic fields, positions, university ranks, and types. The reported wages represent the 9-month base salary, exclusive of summer stipends and bonuses. Our dataset is an unbalanced panel consisting of 195,00 faculty-year observations from over 75,000 research professors at more than 1,450 U.S. universities that offer bachelor's degrees, covering the period from 2005 to 2018. For public universities, we gather faculty wage data through public record requests in compliance with state-level freedom of information laws. We identified academic fields using Scopus and the James Hasselback's faculty datasets. We complete this sample with data on faculty salaries in private and other public universities obtained from the US Department of Labor's dataset of green card and H1B applications.

Table 2. The Finance-Academia Wage Premium

	Log(Faculty Base Salary)								
	All		**Professor Split**				**University Split**		
			Assistant	**Associate**	**Full**	**Experience**	**Top 50**	**R1**	**Non R1**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
$\mathbb{1}$_Finance	0.45***	0.50***	0.60***	0.53***	0.41***	0.59***	0.64***	0.62***	0.38***
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)
Fixed Effects									
Year	Yes	-	-	-	-	-	-	-	-
University × Year	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Position	Yes	Yes	-	-	-	Yes	Yes	Yes	Yes
Non U.S. Citizen	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	188,351	186,484	63,400	44,961	67,075	193,140	33,204	101,734	86,372
R^2	0.28	0.47	0.43	0.33	0.27	0.36	0.43	0.39	0.47

This table reports the Finance-academia wage premium across positions and types of university. We estimate OLS regressions, where the dependent variable is the log of the yearly basis salary. Columns 1 and 2 present the Finance-academia wage premium for the whole sample, without and with university × year fixed effects. Other columns show the premia for the following subsamples: assistant professors (Column 3), associate professors (Column 4) and full professors (Column 5). Column 6 is estimated on the whole sample and includes an interaction with dummies for years of experience. Columns 7, 8 and 9 display the premium for top 50 universities according to the U.S. News MBA Ranking, doctoral universities with very high research activity according to the Carnegie Classification, and all four-year colleges and universities except for doctoral universities with very high research activity, respectively. Our dataset is an unbalanced panel consisting of 195,00 faculty-year observations from over 75,000 research professors at more than 1,450 U.S. universities that offer bachelor's degrees, covering the period from 2005 to 2018. Standard errors are doubled clustered at the university and year levels and reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 3. Summary Statistics: Student Future Wages

	Mean	Median	SD	p10	p90	# Obs.
Panel A - Yearly Income Across Education Fields						
Source: American Community Survey (2010-2018)						
Total Sample	85,202	66,000	75,766	28,000	150,000	1,054,746
By Academic Field						
Finance	131,539	97,000	118,888	37,000	295,000	19,749
Law	96,135	70,000	90,936	25,500	180,000	1,854
Medicine	80,237	70,000	54,729	30,000	130,000	70,111
Management Sciences	101,812	78,000	91,241	30,000	180,000	145,379
Economics	136,185	96,000	130,164	30,000	325,000	22,764
Computer Sciences	108,094	95,000	78,408	39,000	175,000	35,444
Engineering	118,324	100,000	90,410	38,000	200,000	124,146
Life Sciences	80,361	65,000	68,321	25,000	140,000	56,400
Physics	95,802	80,000	80,141	27,000	167,000	30,999
Mathematics	97,614	77,000	86,906	28,700	170,000	20,168
Social Sciences	73,132	59,000	64,997	25,000	125,000	127,552
Humanities	72,420	57,000	68,213	22,000	123,000	104,193
Panel B - 1-year post-Graduation Median Income across Fields AND Universities						
Source: College Scorecard Dataset						
Total Sample	40,586	37,901	14,143	25,634	60,185	11,856
By Academic Field						
Finance	46,274	45,721	9,417	36,852	57,348	999
Law	34,951	33,993	6,572	25,194	41,700	152
Management Sciences	41,247	41,006	8,709	31,742	50,160	1,637
Economics	47,022	45,671	10,686	36,052	61,065	500
Computer Sciences	53,931	52,118	17,209	33,984	71,741	1,064
Engineering	59,120	60,309	9,724	47,128	68,814	570
Life Sciences	29,499	29,336	5,607	22,804	36,347	1,072
Physics	38,141	38,289	7,966	29,685	46,110	391
Mathematics	46,779	44,433	12,473	33,993	61,598	458
Social Sciences	31,857	31,705	5,325	26,545	37,998	1,556
Humanities	28,460	27,826	6,273	21,488	35,777	1,373

This table provides summary statistics on industry wages by undergraduate major in Panel A and the median undergraduate student wages one year after graduation in Panel B. The data for industry wages by undergraduate major are sourced from the American Community Survey, spanning the period from 2010 to 2018. Our sample includes individuals who have obtained at least a master's degree, are under the age of 66, earn a yearly gross wage and salary income exceeding $10,000, and are not employed in post-secondary institutions (excluding industry codes 7870, 7880, and 7890). The information regarding student wages one year post-graduation is derived from the College Scorecard dataset, provided by the U.S. Department of Education, covering the years 2017-2018.

Table 4. The Wage Premium of Graduate Students with a Finance Degree

	All	Bottom 10%	Median	Top 10%
	(1)	(2)	(3)	(4)
$\mathbb{1}$.Finance Major	0.21***	0.18***	0.23***	0.51***
	(0.01)	(0.01)	(0.00)	(0.01)
Fixed Effects				
Year	Yes	Yes	Yes	Yes
Demographics	Yes	Yes	Yes	Yes
Observations	772,560	79,454	149,964	74,485
R^2	0.18	0.04	0.22	0.11

This table reports the wage premium of graduate students with a Finance degree. We estimate OLS regressions, where the dependent variable is the log of the yearly income. Column 1 presents finance academia wage premium for the whole sample. Other columns show the premia at the bottom 10%, median and top 10% of the wage distribution. Demographic controls include fixed effects for age deciles, gender, race, work location type, marital status and level of education. Standard errors are doubled clustered at the field and year levels and reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5. Summary Statistics: Research Productivity

	Mean	Median	SD	p10	p90	# Obs.
Panel A - Citations						
Total Sample	986	141	2,714	1	2,554	171,796
By Academic Field						
Finance & Accounting	275	53	828	0	652	5,584
Law	1,464	225	3,689	3	3,928	7,313
Medicine and Health	1,337	288	3,147	3	3,638	28,808
Management Sciences	477	79	1,577	0	1,153	6,238
Economics	337	98	688	1	886	4,086
Computer Sciences	980	258	2,093	3	2,746	8,346
Engineering	876	241	1,775	2	2,325	9,831
Life Sciences	1,880	719	3,687	28	4,579	35,473
Physics	2,936	1,231	5,354	28	7,081	5,328
Mathematics	404	102	1,109	4	908	6,814
Social Sciences	295	37	1,156	0	633	40,263
Humanities	33	6	125	0	68	13,712
Panel B - H-Index						
Total Sample	10	6	12	1	25	171,796
By Academic Field						
Finance & Accounting	5	3	5	0	11	5,584
Law	12	7	14	1	30	7,313
Medicine and Health	13	8	13	1	31	28,808
Management Sciences	6	4	7	0	14	6,238
Economics	6	5	6	1	14	4,086
Computer Sciences	11	8	10	1	25	8,346
Engineering	11	8	10	1	24	9,831
Life Sciences	17	13	14	2	34	35,473
Physics	21	18	16	2	42	5,328
Mathematics	7	5	7	1	15	6,814
Social Sciences	5	3	7	0	12	40,263
Humanities	2	1	2	0	4	13,712
Panel C - Publications						
Total Sample	36	15	65	1	91	171,796
By Academic Field						
Finance & Accounting	11	7	14	1	23	5,584
Law	60	21	136	3	135	7,313
Medicine and Health	45	22	66	2	115	28,808
Management Sciences	14	9	18	1	34	6,238
Economics	19	13	22	1	43	4,086
Computer Sciences	50	28	62	3	122	8,346
Engineering	62	35	77	3	147	9,831
Life Sciences	50	31	64	5	113	35,473
Physics	106	66	143	11	221	5,328
Mathematics	27	16	32	3	63	6,814
Social Sciences	14	7	21	1	33	40,263
Humanities	6	4	8	1	14	13,712

This table reports summary statistics on research productivity measures by academic field for the sample of research tenure-track faculty obtained through public record requests. Panels A, B and C present summary statistics for the number of citations, h-index and the number of publications, respectively. Academic fields are determined using Scopus and the James Hasselback's faculty datasets. Data on the number of citations, h-index and the number of publications are derived from Scopus.

Table 6. Elasticity of Academic Wages to Student Wages across Fields

	Log(Faculty Base Salary)					
	Undergraduate Students		Master Students		Undergraduate Students	
	(1)	(2)	(3)	(4)	(5)	(6)
$\mathbb{1}_{\text{Finance}}$	0.41***	0.08	0.49***	0.18**	0.42***	0.08
	(0.03)	(0.06)	(0.04)	(0.07)	(0.03)	(0.06)
Student $\text{Wage}_{\text{university, field}}$	0.24***	0.23***	0.17***	0.16***	0.22***	0.21***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Student $\text{Wage}_{\text{university, field}} \times \mathbb{1}_{\text{Finance}}$		0.43***		0.34***		0.45***
		(0.07)		(0.08)		(0.07)
$\mathbb{1}_{\text{Economics}}$					0.12***	0.06
					(0.02)	(0.05)
$\mathbb{1}_{\text{Management Sciences}}$					0.15***	0.02
					(0.02)	(0.04)
Student $\text{Wages}_{\text{university, field}} \times \mathbb{1}_{\text{Ecomomics}}$						0.06
						(0.04)
Student $\text{Wages}_{\text{university, field}} \times \mathbb{1}_{\text{Management Sciences}}$						0.15***
						(0.04)
Fixed Effects						
Position × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Experience Quintiles	Yes	Yes	Yes	Yes	Yes	Yes
Observations	157,515	157,515	115,931	115,931	157,515	157,515
R^2	0.37	0.37	0.36	0.37	0.37	0.38

This table reports the coefficients of OLS regressions, where the dependent variable is the log of the yearly gross faculty wage. Columns 1-3 demonstrate the relation between faculty wages and the median wage of undergraduate students one year after graduation, while Columns 4-6 show the relation between faculty wages and the median wage of graduate students one year after graduation. Student wages are matched to academic fields using information on academic majors. The sample is restricted to the 2017-2018 period, for which data on student wages is available. Standard errors are double clustered at the university and year levels and reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 7. Elasticity of Academic Wages to Research Output

	Log(Faculty Base Salary)					
	(1)	(2)	(3)	(4)	(5)	(6)
$\mathbb{1}_{\text{Finance}}$	0.50***	0.26***	0.31***	0.29***	0.52***	0.27***
	(0.04)	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)
$CitationsQuintile_i$		0.06***				0.06***
		(0.01)				(0.01)
$CitationsQuintile_i \times \mathbb{1}_{\text{Finance}}$		0.07***				0.07***
		(0.01)				(0.01)
$HindexQuintile_i$			0.06***			
			(0.00)			
$HindexQuintile_i \times \mathbb{1}_{\text{Finance}}$			0.06***			
			(0.01)			
$i10Quintile_i$				0.05***		
				(0.00)		
$i10Quintile_i \times \mathbb{1}_{\text{Finance}}$				0.07***		
				(0.01)		
$\mathbb{1}_{\text{Economics}}$					0.21***	0.08**
					(0.03)	(0.03)
$\mathbb{1}_{\text{Management Sciences}}$					0.26***	0.07**
					(0.02)	(0.03)
$CitationsQuintile \times \mathbb{1}_{\text{Economics}}$						0.04***
						(0.01)
$CitationsQuintile \times \mathbb{1}_{\text{Management Sciences}}$						0.06***
						(0.01)
Fixed Effects						
Position × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Experience Quintiles	Yes	Yes	Yes	Yes	Yes	Yes
Observations	131,721	131,721	131,721	131,721	131,721	131,721
R^2	0.33	0.37	0.37	0.36	0.35	0.39

This table reports the coefficients of OLS regressions, where the dependent variable is the log of faculty base salary. Columns 2, 3, and 4 interact a measure of citation, Hindex and i10 quintiles, respectively, with a finance dummy. Columns 5 and 6 reproduce the analysis adding dummies for Economics and Management Sciences. Standard errors are clustered at the university and year levels and reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 8. University Monopsony Power: Elasticity of Wages to Applications

	Finance/Accounting	Business	Engineering	Life Science	Social Science	Medicine
	(1)	(2)	(3)	(4)	(5)	(6)
Log(Lagged Applications)	0.02	0.01	0.01	0.01	0.03*	0.03**
	(0.03)	(0.02)	(0.02)	(0.01)	(0.01)	(0.02)
Log(Lagged Applications) $*$ $\mathbb{1}$.Associate	0.03**	0.01	0.00	0.01	-0.00	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Log(Lagged Applications) $*$ $\mathbb{1}$.Full	0.08***	0.05***	0.04***	0.05***	0.05***	0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Fixed Effects						
University FE	Yes	Yes	Yes	Yes	Yes	Yes
Position FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,135	4,736	7,582	26,318	31,953	18,325
R^2	0.66	0.49	0.52	0.52	0.54	0.42

This table reports the coefficients of OLS regressions, where the dependent variable is the log of the yearly gross faculty wage. The list of independent variables includes the lagged number of undergraduate applications at the university level and its intersections with indicator variables for being associate and full professors. Each column reports the results for one field. The sample excludes Green Card and H1B holders. Standard errors are clustered at the university times year level and reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.