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**How useful are Measures of Local School Quality? What Property Values are Telling Us**  
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Local education is a central public policy issue as the gap between the quality of suburban and urban schools has widened to its most critical point in many years. Many urban school systems are plagued with low-performance, measured by low test scores, high dropout rates and rapid turnover of qualified teachers. This pushes many middle income and more affluent families to the suburbs. But fewer higher performing students further reduces the measured quality of urban schools, reinforcing the school quality gap.

A current popular approach to improving urban schools introduces greater emphasis on high-stakes testing, under which schools are held accountable, through a variety of sanctions, for their students' failure to meet or exceed the thresholds on standardized tests. The implementation of these numerous school reforms, however, presupposes that we have good measures of school performance and some notion of the value of better schools to parents and taxpayers. But economists argue that student test scores do not provide a proper measure of school quality; average test scores also reflect changes due to student mobility and non-school factors that contribute to student achievement such as family and community characteristics. In principle, though, we can use information from the housing market to infer the value parents place on school quality. And in so doing, we can also ascertain whether or not parents treat school quality measures as informative or not.

There is a large literature that finds a positive relationship between property values and standardized test scores across schools.<sup>1</sup> The quality measurement issue, however, is more important now than ever, with local governments increasingly focused on measuring the gain in student test scores to the point that some states provide financial incentives to schools and teachers whose students score well on the standardized tests. High-stakes testing also increases the temptation for students, teachers, and administrators to cheat on standardized tests.<sup>2</sup> Chicago and Atlanta represent two high profile cases of widespread teacher and administrator cheating on standardized tests, events that reduced public confidence in school test results in these and other communities. The question is, by publishing school report cards, are state and local governments are providing additional information about school quality beyond test score data?

The evidence is mixed.<sup>3</sup> A study by Figlio and Lucas finds some evidence that public exposure of school report cards impacts house values in Florida. In contrast, Kane, Staiger, and Stamms find that differences between North Carolina schools' long-term average test scores are reflected in property values, but that year-to-year fluctuations in scores for individual schools are not. Further, local house prices did not decline for local schools labeled "low-performing" when composite school ratings were introduced. It appears residents already knew that these schools were low-performing and so they treated the ratings as uninformative.

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1. See, for examples, S. Black, "Do Better Schools Matter? Parental Valuation of Elementary Education," *Quarterly Journal of Economics* 1999, 114: 579-99; D. R. Haurin, & D. Brasington, "School Quality and Real House Prices: Inter- and Intrametropolitan Effects." *Journal of Housing Economics* 1996, 5: 351-68; and K. J. Hayes & L. Taylor, "Neighborhood School Characteristics: What Signals Quality to Homebuyers?" *Federal Reserve Bank of Dallas Economic Review*, 1996, 3: 2-9.
  2. B. Jacob and S. D. Levitt, "Catching Cheating Teachers: The Results of an Unusual Experiment in Implementing Theory," NBER Working Paper No. W9414, 2003.
  3. D. N. Figlio & M. E. Lucas, "What's in a Grade? School Report Cards and House Prices." *American Economic Review* 2002, 94(3): 591-604; and T. Kane, D. O. Staiger, & G. Samms, *School Accountability Ratings and Housing Values*. Washington, D.C.: Brookings Institution Press, 2003.

Focusing on house prices alone, however, is not sufficient. We expect school quality to affect house prices, but it can also affect liquidity or how quickly or easily properties can be sold. A recent study develops an econometric method to take into account how school quality measures simultaneously affect both expected house selling prices and time on the market.<sup>4</sup> It turns out that paying attention to both price and liquidity is important, since it helps clarify the earlier mixed results for Florida and North Carolina. This study finds that house prices in Louisiana do not appear to respond to declining public school performance. When looking at the difficulty of sale, however, declining school performance in Louisiana significantly increases marketing time of houses. So, while there is no direct effect on selling prices, declining schools significantly increase the difficulty of sale. As important, declines and improvements in school quality do not have symmetric effects on house prices and liquidity. Declining school quality has little price effect but significantly increases marketing time, while rising school quality significantly increases house price but has little effect on marketing time.

Many states are motivating improvement in measured quality with school grants, teacher bonuses, or other enhancements. The housing market shows that homeowners share this enthusiasm for explicit performance measures. While previous empirical evidence focusing solely on house prices yielded mixed conclusions in this regard, the newer research that accounts for both selling price and liquidity illustrates that homeowners find standardized school quality measures or performance grades informative, treating them as if they adequately reflect differences in educational quality across schools.

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4. V. Zahirovic-Herbert & G. K. Turnbull, "School Quality, House Prices, and Liquidity," *Journal of Real Estate Finance and Economics*, 2008, 37: 113-130.

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