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**Studying abroad and the Effect on International Labour Market
Mobility: Evidence from the Introduction of Erasmus**

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Executive Summary

This paper investigates the relationship between studying abroad and labor market mobility during the early career after graduation from university. The key challenge that this paper addresses is to separate out selection effects from a genuine causal effect of studying abroad. We achieve this by exploiting variation from the introduction and the expansion of ERASMUS, which affects students differentially in our sample, depending on cohort, university and subject of study. Key findings of our study are:

1. Studying abroad during the course of the undergraduate studies increases the probability of working abroad later by around 15 to 20 percentage points. This result suggests that international student exchange may play a major role in facilitating later labor migration.
2. We investigate reasons for why students who study abroad for some time as undergraduates are more likely to work abroad later. Students who have studied abroad indicate more frequently that their interest in other cultures, their partner, or ambitions for a career abroad have led them to work abroad (relative to those who work abroad but have not been abroad as a student).
3. The ERASMUS program, which supports students mobility between European universities since 1987, has increased the probability of studying abroad significantly.
4. Our results indicate that the ERASMUS program has in fact been very effective in terms of increasing labor market mobility within Europe. We provide descriptive evidence that study abroad location choices are sticky: Of the students who study abroad in a European country and work internationally after graduation, two thirds end up working in a European country.

International labor market mobility has accompanied economic activity for centuries. Depending on the perspective, international labor migration is seen as beneficial or harmful for economic development. Proponents argue that it facilitates efficient matching between workers and jobs. Opponents, however, fear that out-migration may cause a brain drain if there is no corresponding inflow in human capital from immigration. In the context of globalization, location decisions of skilled individuals are seen as a potentially important factor for differences in productivity and innovation between countries. This motivates our interest in investigating determinants of labor market mobility. In particular, we study how an earlier mobility decision (studying abroad) affects the decision to work abroad, using survey data on a large number of German university graduates, which provides us with detailed information about family background, study history and about labor market outcomes of the individuals. While it has been suggested previously

that study abroad spells may be important for later migration decisions, there is very little evidence on this question so far. Also, the phenomena of studying abroad is becoming more important as more and more students decide to spend part of their studies in a different country. This study contributes to understanding determinants and labor market effects of studying abroad.

Individuals who spend part of their undergraduate studies abroad are found to be systematically different from individuals who do not leave their home country as part of their studies. Our work documents these important differences along a number of dimensions. Thus, differences in their labor market behavior could simply be due to this underlying selection. This suggests that a simple comparison between these two groups may not be informative about a causal effect of studying abroad. To overcome this problem, we exploit differences in scholarship availability, and combine our data set with detailed information about availability of ERASMUS scholarships. The introduction and expansion of ERASMUS provides us with exogenous variation in studying abroad. We find that studying abroad has a strong effect on the probability of working abroad later on. In particular, studying abroad increases the probability of working abroad by about 15 to 20 percentage points. Our findings are found to be robust to a number of specification checks.

Our results suggest that the effect of studying abroad varies across the population of students. Our findings have the interpretation as being the average effect for the subgroup of students who were affected by the ERASMUS intervention. In order to characterize this population, we investigate the role of credit constraints. We show that students who are likely to be financially constrained respond particularly strongly to the availability of the ERASMUS program in their decision to study abroad.

Studying Abroad and the Effect on International Labor Market Mobility

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1 Introduction

International labor market mobility has accompanied economic activity for centuries. Depending on the perspective international labor migration is seen as beneficial or harmful for economic development. Proponents argue that it facilitates efficient matching between workers and jobs. Opponents, however, fear that outmigration may cause a brain drain if there is no corresponding inflow in human capital from immigration. Given the relevance of international labor migration it is important to understand its driving forces. Supporters of international labor market mobility but also people concerned about brain drain highlight the importance of studying abroad as an important factor affecting an individual's decision to work abroad later on in life. The European Commission, promoting international labor market mobility within Europe, claims in a recent report:

"It is the Commission's responsibility to ensure that the freedom of movements of workers (...) is guaranteed and operates in reality. (...) In this respect the value of educational mobility cannot be underestimated, not least because of linguistic and intercultural skills that mobile student acquire. Evidence indicates that students who have been internationally mobile are more likely later in life to consider, seek or take up job opportunities in a Member State other than their own."

(Commission of the European Communities 2002)

Likewise, people worried about losing highly skilled workers to other countries mention the importance of studying abroad as a determinant of later international labor market mobility. This is exemplified by a quote from a recent article in the Economist about international labor market mobility of Germans:

"The modest figures mask a more serious problem: brain-drain. Hard numbers are difficult to find, but anecdotal evidence suggests that many more academics are leaving Germany than are arriving (...) In part, this is due to globalization. German university students usually spend at least one term abroad and often speak a second language fluently. For the highly skilled, it does not matter much whether they work in Berlin, Munich, London or New York."

(The Economist 2006)

Despite the widespread belief in the link between studying abroad and international labor market mobility, empirical evidence is very limited. This paper establishes a connection between studying abroad and working abroad later on in life which goes beyond correlation. To analyze this question we use data from a large-scale survey of German

university graduates, designed to allow nationally representative analyses of university-to-work transitions.

It is likely that students who decide to study abroad are in many ways different from students who undertake all of their education in their home country. The unobserved heterogeneity may also affect the decision of working abroad later on in life. This may introduce a bias in OLS estimates of the effect of studying abroad on subsequent international labor migration decision. In order to obtain unbiased estimates we thus employ an Instrumental Variables strategy. We exploit the fact that the introduction and expansion of student exchange programs exogenously increased the possibility for students to study abroad. A hugely important stimulation for international student exchange opportunities in Europe has been the introduction of the ERASMUS exchange program in 1987. We exploit the variation in scholarship availability as a source of exogenous variation in a student's probability to study abroad. In order to ascertain a student's exposure to the ERASMUS program we construct a unique dataset, containing annual information on the number of exchange places for each subject at every German university. We find that the ERASMUS program has a large impact on international student mobility. Furthermore, we can use the variation in international student exchange programs to identify the causal effect of studying abroad on the decision of working in a foreign country later on in life. We find that studying abroad increases a person's probability of working abroad by about 15–20 percentage points. Our results are robust to a number of specification checks. One of the policy implications is that student mobility schemes have an important role in facilitating international labor migration.

There is a large body of literature addressing the phenomena of brain drain. In an early theoretical paper, Grubel and Scott (1966) discuss the brain drain phenomena assuming competitive markets and the absence of externalities from the skilled worker's employment at home. Under these assumptions the sending country will only incur short-run frictional costs, which may be offset by other benefits from international mobility, such as remittances or internationally available research output. Bhagwati and Hamada (1974) argue that these conclusions fail to hold in a world where education is largely financed by the home country and where wages are sticky. In an endogenous growth framework, Beine, Docquier, Rapoport (2001) highlight the effect of mobility on education choices at home in a world where later migration is uncertain: Migration possibilities directly reduce growth rates in the home country, but the increased returns to education lead to an increase in the educational attainment at home, potentially offsetting this effect.

Empirically, Docquier and Marfouk (2006) combine national census data sets from receiving countries to compute the number of migrants by educational attainment for a large set of OECD countries. One of the key features of their results is the strong increase in international migration of skilled workers between 1990 and 2000. While brain drain has been traditionally seen as a particular problem for developing countries, there is recent

interest in emigration from European countries (Saint-Paul 2004, Becker, Ichino & Peri 2003, Uebelmesser 2006). Saint-Paul (2004) uses US Census data to compare European migrants' characteristics with the stayers in the sending country. He concludes that even though migrants only constitute a relatively small fraction of the sending countries population, they form a highly selective group, and their numbers are increasing.

It has long been recognized that outmigration of skilled labor may be offset by immigration of skilled foreigners. Since we do not investigate the inflow of skilled immigrants, it is clear that our analysis cannot give a complete answer to the extent of brain drain in Germany. We still believe, though, that our analysis is useful evidence in this debate. Just like it is informative to study transition from work into unemployment to learn about causes of unemployment.

There are very few papers investigating the link between international student mobility and the decision to work abroad after graduation. One reason is data availability: Most surveys do not contain information on study abroad spells during a student's undergraduate career, and graduates who work abroad are generally not sampled in national surveys of the sending countries. The available evidence is based on surveys of students. Jahr and Teichler (2001) use data from a survey of European university graduates. They investigate the effect of studying abroad on later international labor market mobility without controlling for possible selection of formerly mobile students. They find that formerly mobile students are between 15 and 18 percentage points more likely to work in a foreign country after graduation. The paper which is most closely related to ours is a study by Oosterbeek and Webbink (2006). They employ a regression discontinuity design to control for unobserved heterogeneity between internationally mobile and nonmobile students. Using data on talented Dutch university students they find that studying abroad increases the probability of living in a foreign country by about 50 percentage points. A key difference to our work is that they look at a small sample of particularly talented students, while we use a nationally representative survey of German university graduates. Another important difference is that Oosterbeek and Webbink (2006) investigate the effect of *postgraduate* studies abroad. Students pursuing a postgraduate degree abroad may remain in the receiving country while looking for work if moving across countries is costly. Part of the effect they find may also be driven by the fact that some of the respondents abroad are still enrolled in higher education at the time of the survey. In contrast, in our work, the intervention is international mobility during the undergraduate career, after which students return to complete their degree in Germany. Thus, our research design allows us – and in fact forces us – to separate the two mobility investments (studying abroad and working abroad). The effect we find therefore informative about the dynamic effects of earlier mobility investments.

Analyzing mobility decisions of university graduates is important as they constitute the group of highly skilled people who may be especially important for a country's eco-

conomic growth. It is increasingly recognized that location choices of talented individuals may be crucial for growth and prosperity of countries (see, for example, Chellaraj, Maskus and Mattoo (2006)). Our paper makes a number of contributions: Our data allows unique insights into the decision to work abroad in the early career of university graduates. Since we are able to characterize the outflow of highly-skilled mobile people we provide an important element to both the academic and the policy debate on international labor market mobility and brain drain. Furthermore, exploiting the exogenous introduction of the ERASMUS scheme allows us to provide an estimate of the causal effect of the study abroad decision during the undergraduate career.

Driven by the observed pronounced differences between migrants and non-migrants in educational attainment, there is also increasing interest in understanding the interactions between migration and education decisions. At the same time, little is known about the reasons for this relationship. Our work addresses this question by evaluating mobility implications of a particular educational investment. Our results indicate that mobility components in educational interventions can have large effects on mobility decisions later in life. More generally, our work allows us to study the dynamics of mobility investments. Our results emphasize the importance of considering repeat migration in explaining mobility patterns, and underline the usefulness of understanding earlier mobility behavior in predicting location choices.

The paper proceeds as follows: The next section briefly describes the data we are using. Section 3 outlines our identification strategy. We then present the first stage results and provides evidence that our instruments are both powerful and operate very precisely in the way we claim they do. The following sections present the main results and a number of sensitivity checks. In order to offer insights into the channels which lead students who studied abroad to work abroad later on, we then present descriptive evidence on why students worked abroad, and we investigate whether students work in the same part of the world where they went to study earlier. The last section concludes.

2 Data

We use data on German university graduates, which has been collected by the Higher Education Information System (HIS) institute. This survey is conducted to provide a nationally representative longitudinal sample of university graduates in Germany. A sample of university graduates has been drawn from cohorts graduating in the academic years 1988-89, 1992-93, 1996-97, and 2000-01. In the following, we will refer to these four cross-sections as graduate cohorts 1989, 1993, 1997, and 2001. Graduates in each cohort are surveyed twice. The first survey takes place about 12 months after graduation (the *Initial Survey*). The same individuals participate in a follow-up survey about 5 years

after entering the labor market (*Follow-Up Survey*).¹ The following figure illustrates the timing of the different surveys.

Graduate Cohort	Year													
	89	90	91	92	93	94	95	96	97	98	99	01	02	03
1989	Graduation	Initial Survey			Follow-Up Survey									
1993					Graduation	Initial Survey				Follow-Up Survey				
1997									Graduation	Initial Survey			Follow-Up Survey	
2001												Graduation	Initial Survey	

Figure 1: HIS Data

The data contains detailed information on the students' background, study history, and labor market characteristics. This allows us to relate study decisions, in particular international educational mobility, to later labor market outcomes. A large advantage of this dataset lies in the fact that individuals graduating from a university in Germany are followed even if they move to a foreign country. This feature makes this dataset particularly valuable to investigate questions concerning international mobility.

The data and the sampling process is described in detail in Briedis & Minks (2004). The sample was drawn as follows: For each cohort, university-subject-degree combinations were sampled randomly, and the respective universities mailed the questionnaire to each student who had graduated within the corresponding academic year. This procedure ensures that the sample contains individuals from a large number of different institutions and subjects. One key advantage of the data is that the population of interest consists of all university graduates who completed their studies during a given academic year at any institution of higher education in Germany. The higher education system in Germany consists of a number of different university types catering to different types of students. We include five main types of higher education institutions in our estimation. This includes not only the traditional universities (*Universitäten*) but also the so-called Universities of Applied Sciences (*Fachhochschulen*), the Comprehensive Universities (*Gesamthochschulen*), the Colleges of Art and Music (*Kunst- und Musikakademien*), and the Theological Universities (*Theologische Hochschulen*).² The response rate to the

¹For the 2001 cohort, only the initial survey is available so far.

²All institutions in our sample would be called universities in most countries outside Germany.

survey is around 25%. While of course a higher response rate would be desirable, an analysis conducted by the HIS has come to the conclusion that the characteristics of the survey respondents are close to those of the target population. The total number of respondents in our data corresponding to the four cohorts is 8,153 (1989), 6,737 (1993), 6,220 (1997), and 8,103 (2001).

The key information for our purposes is whether the student has studied abroad during her undergraduate studies, and whether the graduate works abroad at the time of the survey. We infer undergraduate mobility from the first question of the questionnaire, which asks the student to report her complete enrollment history. Respondents are instructed to report each change of degree program or university. The questionnaire makes explicit reference to study abroad as one form of change in status in the 2001 survey. We use this information to construct an indicator of whether the student studied abroad during her undergraduate career. In order to exclude university mobility after finishing the first degree (e.g. to obtain a Master abroad), we only look at international mobility before the graduation date of the first degree. It is important to note that only students who obtain their degree in Germany are surveyed. We are, therefore, not able to observe students who first enrol in Germany and subsequently move to a foreign university and obtain their degree abroad. Also Germans who complete all of their higher education abroad are not included in our sample. These individuals may be different to students who study abroad as part of their degree in Germany. It is quite likely that those who complete their higher education abroad are even more likely to work in a foreign country after graduation than students who obtain their degree in Germany. If this was true we would underestimate the effect of studying abroad. Unfortunately, our data is not suitable to test this hypothesis.

For all students who have ever participated in the labor market, both the initial and the follow-up surveys contain questions about the current (or the last) employment, including the location of work. We infer from this question whether a former student now works in Germany or abroad, and create an indicator accordingly.

The following figure shows the percentages of studying abroad and working abroad (from the initial survey, one year after graduation) for the four graduation cohorts. It can be seen that both studying abroad and working abroad occurs more frequently among students of later graduation cohorts. It is important to note that we include dummies for the four graduation cohorts in all our regressions. Therefore, we do not identify the effect of studying abroad from the overall time-trend in the two variables. In fact, in our sensitivity analysis, we show that our results are robust to allowing for not only a general time trend, but subject-specific or university-specific time trends.

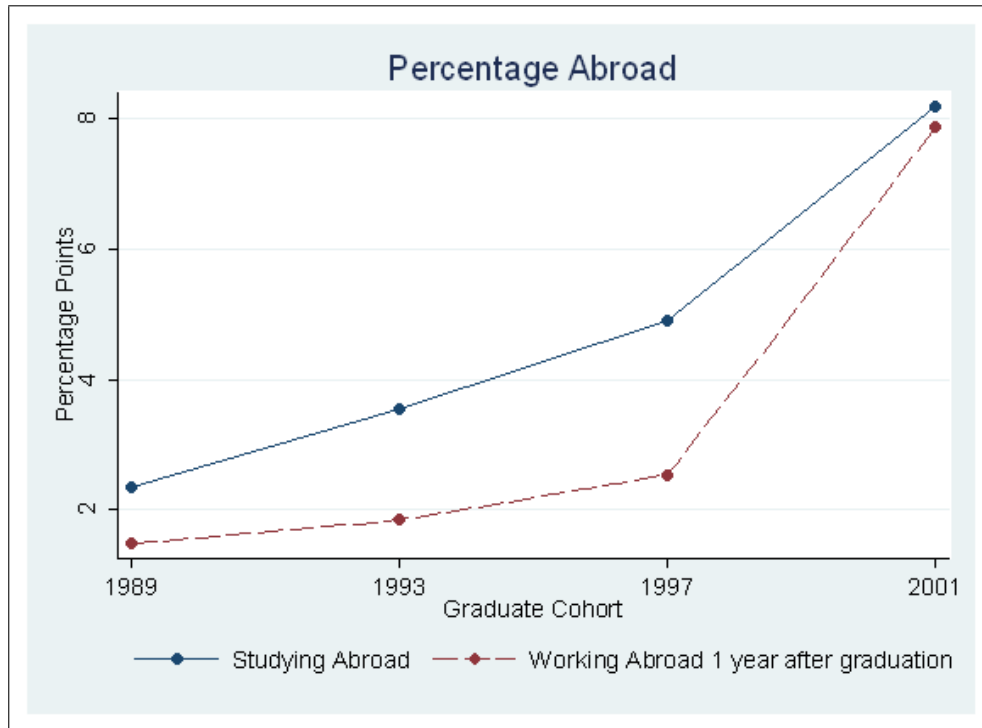


Figure 2: International Mobility in HIS Data

These percentages can be compared to information on international mobility from other data sources. Isserstedt & Schnitzler (2002) point out that different data sources use different ways to collect data and different definitions of a stay abroad. These differences may result in different estimates of student mobility. With this caveat in mind, we compare the incidence of international educational mobility in our data to data from the *16th Sozialerhebung*, a large-scale survey of German students in 2000. Of all students surveyed in the *Sozialerhebung* about 13 percent of advanced students indicated that they spent part of their studies at a foreign university. While this number is larger than ours, it seems roughly comparable: The students interviewed in the *Sozialerhebung* in 2000 will on average belong to a later graduate cohort than the academic year 2000/2001, which corresponds to our last cohort. Also, our definition relies on students spending at least one term at a foreign university. Thus, short term exchange will be included in the figure of the *Sozialerhebung*, but not in ours. The figures from the *Sozialerhebung* also replicate the strong over-time increase in the fraction of students who study abroad.

With similar caution we use data from the OECD Factbook 2006 to investigate the reliability of our data with respect to international labor market mobility. The OECD estimates that about 7.3 percent of German university graduates worked as expatriates in an OECD country in the year 2000. This number is slightly lower than the percentage of people working abroad for the 2001 cohort in our dataset. This can be explained by the fact that the OECD calculates its estimate of expatriates by considering migration to the

OECD countries only. Our number, however, includes people working abroad anywhere in the world. A further difference stems from the fact that we consider individuals who obtained their university degree in Germany, only. The OECD, however, tries to track all Germans in OECD countries. Differences may also be driven from different methodologies of estimating outmigration: the OECD captures stocks of people abroad while we look at the outflow of graduates from a certain cohort.

We conclude that both the percentage of people studying abroad and the percentage of people working abroad in our data are comparable to estimates from other data sources. This makes us confident that the HIS data is appropriate to analyze our question of interest.

In addition to the international mobility variables we also use a number of other variables as controls, which we obtain from the HIS data as well. We create a measure of potential experience since graduation, defined as the number of months from graduation to the time of answering the questionnaire.³ We take this measure of potential experience rather than actual labor market experience, because actual labor market experience could be affected by a study period abroad and might then be endogenous to our outcome. Other controls include a female indicator and an indicator for whether the student completed an apprenticeship before beginning her university studies. We also use variables which control for a students' earlier mobility decisions. In particular we include a variable which controls for whether the student first enrolls in university in the state (*Bundesland*) where she obtained her final high school degree. Furthermore, we include the distance between the state of her university enrollment and the state where she obtained her high school degree.

We use a number of variables to control for a student's parental background. To control for parental education we use a variable that indicates the highest grade completed by either parent.⁴ We also construct indicator variables in five categories for each parent to control for parental occupation. As a proxy for credit constraints we use an indicator variable whether the student ever received federal financial assistance (BAFOEG). Students are eligible to this assistance if parental income is below a certain threshold. This threshold varies according to the number of children who are enrolled in a formal education program.

In order to implement our Instrumental Variables strategy we combine the HIS graduate survey data with a unique dataset of ERASMUS participation. There is no readily available data on the ERASMUS exchange program for our time period of interest. The

³There is some variation in experience because students were sampled according to whether their graduation fell in a particular academic year. Students graduating at the beginning of the academic year therefore have more potential experience than those graduating towards the end of the year. In addition, there is some variation with respect to when the questionnaires were sent out and how quickly graduates responded.

⁴Using a linear years of parental education variable or controlling for mother's and father's education separately does not affect our results.

German Academic Exchange Service (DAAD) provided us with data on the number of ERASMUS scholarship holders for each year and each participating institution on a subject-by-subject basis from 1993/94 to 1999/2000. To obtain the data for the earlier years we proceeded as follows: The DAAD provided us with the number of scholarships allocated to each ERASMUS inter-university agreement (Inter-university Cooperation Program, ICP). We combined this information with published listings of all ICPs, which give details about the participating universities and the subjects covered for each inter-university agreement (see, for example, DAAD (1992)). This allows us to construct a panel data set at the university-subject-year level that covers the entire history of the ERASMUS program in Germany.

We restrict our sample to those observations for which all variables of interest are observed. As mentioned before, students from the graduate cohorts 1989, 1993, and 1997 have been surveyed twice, the first time one year after graduating from university and a second time five years after graduation. We thus have two observations for the location of work for most individuals from those cohorts. In the estimation below, we pool the observations from the initial and the follow-up survey for efficiency reasons. This allows us to use the information provided in both questionnaires. Means and standard deviations of our estimation sample are reported in Table 1. It is evident from comparing columns (2) and (3) that individuals who studied abroad are also more likely to work abroad later in life. One can also see that individuals with more exposure to ERASMUS (as measured by ERASMUS ratio or ERASMUS indicator, which are described in further detail below) are more likely to study abroad. In the following section we explain how we use the ERASMUS program to identify the causal link between studying abroad and international labor market mobility later in life.

3 Identification Strategy

In order to investigate the effect of studying abroad on international labor market mobility we estimate the following equation.

$$(1) \text{ Work Abroad} = \beta_1 + \beta_2 \text{Study Abroad} + \beta_3 \mathbf{X} + \beta_4 \text{Cohort FE} + \beta_5 \text{Year Abroad FE} \\ + \beta_6 \text{Subject FE} + \beta_7 \text{University FE} + u$$

Where *Work Abroad* and *Study Abroad* are dummy variables indicating whether an individual worked abroad or studied abroad respectively. \mathbf{X} is a vector of personal characteristics, which may affect the decision to work abroad, such as gender, work experience or an individual's family background. We also include a full set of dummies for each grad-

uate cohort, the year a typical student goes abroad⁵, a student's subject, and university. Our main interest lies in obtaining consistent estimates of β_2 .

The summary statistics presented in the previous section clearly indicate that students who study abroad differ systematically in their observable characteristics from those who remain in Germany throughout their undergraduate studies. Although our data set is rich in observed characteristics of the student, many dimensions which are likely to affect the students' mobility decision remain unobserved. A possible factor could be, for example, the students' unobserved motivation. If these unobserved factors are correlated with the outcome, estimating equation (1) using OLS would yield biased estimates, because we would mistakenly attribute the effect of the unobserved covariates to the stay abroad. While it is generally difficult to characterize these unobserved components in its entirety, there is some direct evidence of what factors may play a role. In their sociological analysis of determinants of studying abroad, Muessig-Trapp & Schnitzler (1997) identify as critical factors affecting the decision to study abroad the student's personality structure, her financial situation, whether she holds any part-time job, foreign language skills, the expected labor market benefit of going abroad, and her motivation. Clearly, many of these dimensions will be unobserved to the econometrician. Thinking about our outcome of interest it is likely that the same unobserved factors which drive the decision to study abroad will also affect the decision of where to look for a job. It is therefore not clear what at all can be learned from a comparison of means of those who study abroad versus those who do not. This underlines that this context requires a credible identification strategy to learn about the causal impact of the study period abroad. We use the ERASMUS program as an instrumental variable to identify the causal effect of studying abroad. As our first stage we estimate the following equation:

$$(2) \text{ Study Abroad} = \gamma_1 + \gamma_2 \text{ERASMUS} + \gamma_3 X + \gamma_4 \text{Cohort FE} + \gamma_5 \text{Year Abroad FE} \\ + \gamma_6 \text{Subject FE} + \gamma_7 \text{University FE} + \epsilon$$

ERASMUS is a variable measuring a student's exposure to the ERASMUS program, which we describe in further detail below. In addition to the main variables of interest we include the same control variables as in equation (1).

Our identification strategy relies on the large scale introduction and expansion of the ERASMUS program. In 1987, the Council of Ministers of the European Community passed the *European Community Action Scheme for the Mobility of University Students* (ERASMUS). The main objective of ERASMUS is "to achieve a significant increase in the number of students [...] spending an integrated period of study in another Member State" (Council of the European Communities 1987). Student mobility was to be in-

⁵We define the year abroad as the year when the median student in a given subject and university type (University, University of Applied Science, Comprehensive University, Theological University or College of Art) chooses to study abroad.

creased through the creation of a European university network, individual scholarships, and mutual recognition of academic credits (Smith 1988). Since then, ERASMUS has continually expanded. Looking across all participating countries, 1.37 million students have taken part in ERASMUS in the period of the academic years 1987/88 to 2004/05, with 15.7% of those outgoings coming from Germany.⁶ The magnitude of the expansion can be clarified by relating ERASMUS outgoing students to the number of students in a given cohort. For example, of those graduates surveyed in 2001, about 5% of German students studied abroad with an ERASMUS scholarship.⁷ The overall incidence of studying abroad for the 2001 cohort is 8 percent. The ERASMUS program therefore accounts for more than half of international undergraduate mobility in Germany. Particularly noteworthy is the over-time change in the number of ERASMUS scholarships. Figure 3 shows the number of German outgoing students for each year since the introduction of the program.

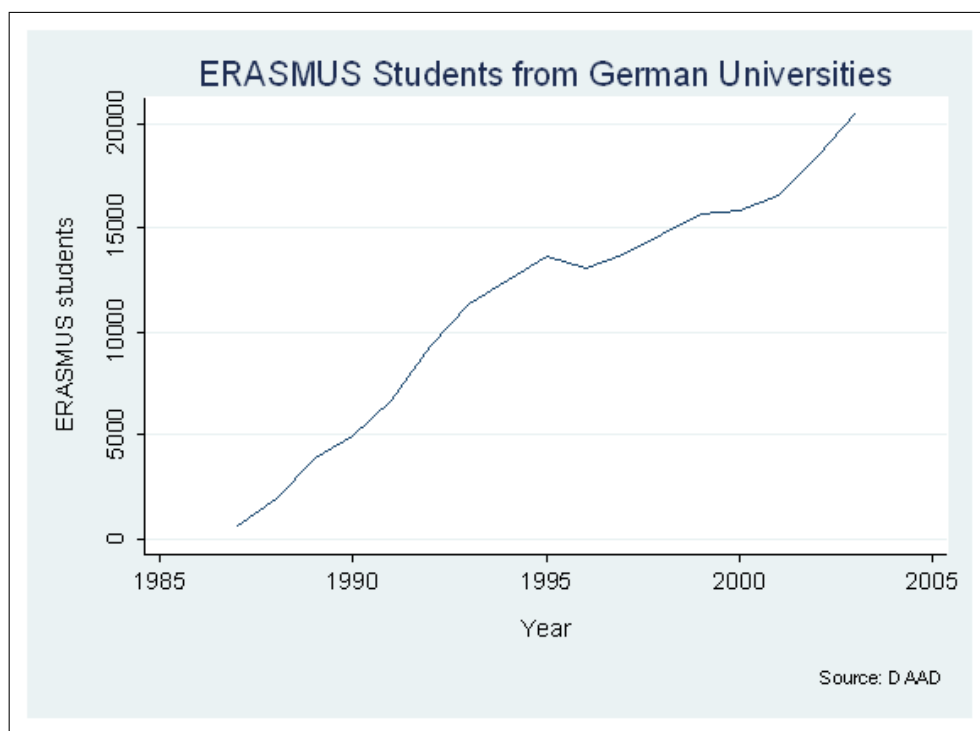


Figure 3: ERASMUS in Germany

⁶One argument why outmigration of skilled workers does not lead to brain drain is that there may be off-setting immigration from other countries. Statistics on the ERASMUS program indicate that within the ERASMUS student exchange, German outgoing students are not matched by corresponding incoming students from other countries: In 2004/05, German outgoing ERASMUS students exceed incoming ERASMUS students by about 30 percent.

⁷This number is obtained as follows: In the 2001 graduate cohort, the median student started her tertiary studies in the academic year 1995/96. In that year, about 262,000 students entered university. The typical exchange student in that cohort studied abroad in the third year of her studies. In that year 13785 students from German universities participated in the ERASMUS program. This corresponds to about 5% of the entire cohort.

The dramatic expansion is clearly visible. Students in our four graduate cohorts are therefore affected quite differently by the program. It is important to be precise about the variation we exploit to identify the effect of ERASMUS. We account for systematic differences between universities by including university fixed effects. Our empirical strategy thus relies on over-time changes in scholarship availability. At the same time, we include dummies for our four graduate cohorts, so that any difference that is common to all students in a cohort is taken out as well. This ensures that we are not relying on any long-term trends (which may possibly affect both the instrument and the outcome). Furthermore, we include dummies for the year a typical exchange student begins her stay at a foreign university. We define this year as the year when the median exchange student in a given subject and graduate cohort enrolls at a foreign university. We allow this year to vary across different subjects because students in different departments integrate their stay at a foreign university at different times of their degree. We also allow this timing to vary across different university types. In addition to that we include subject fixed effects in our estimation. This accounts for any systematic difference in international mobility of students in different subjects. We therefore rely on over-time changes in program intensity at a given subject and university combination. Probing the robustness of our findings we also include university specific time trends in our specifications. These allow for a linear trend in the probability of studying abroad at a given university. Our results are not affected by including those time trends. To further control for any possible unobserved heterogeneity we include fixed effects for the interaction of a student's faculty (such as humanities or science faculty) and her university. We show below that our findings are robust to using these fixed effects.

Students participating in the ERASMUS program apply for an exchange scholarship at their home university. The award of the scholarship not only secures them a place at a certain partner university abroad but also provides them with a small mobility grant. In the academic year 1997/1998 (the year a typical student from the 2001 graduation cohort went abroad) an outgoing student from Germany received about 138 Euros per month for her stay abroad. In addition to receiving the mobility grant the ERASMUS student receives a tuition fee waiver at the foreign university. Another important benefit of ERASMUS is that it significantly reduces the student's application costs and the time the student needs to apply in advance to be able to organize a stay at a foreign university.

In order to give an insight into the variation, which is exploited in our identification strategy, we show the raw data on the number of ERASMUS students at four departments at the two large universities in Munich in the following figure.⁸

⁸We choose the Ludwig-Maximilians University and the Technical University Munich for our descriptive analysis because they are located in the same city and are of similar quality and reputation. This is exemplified by the fact that these two universities were among only three universities to be selected as winner of the "Initiative for Excellence". This initiative allocates federal funding to German universities which are considered to have the potential to become world-class research universities. This potential

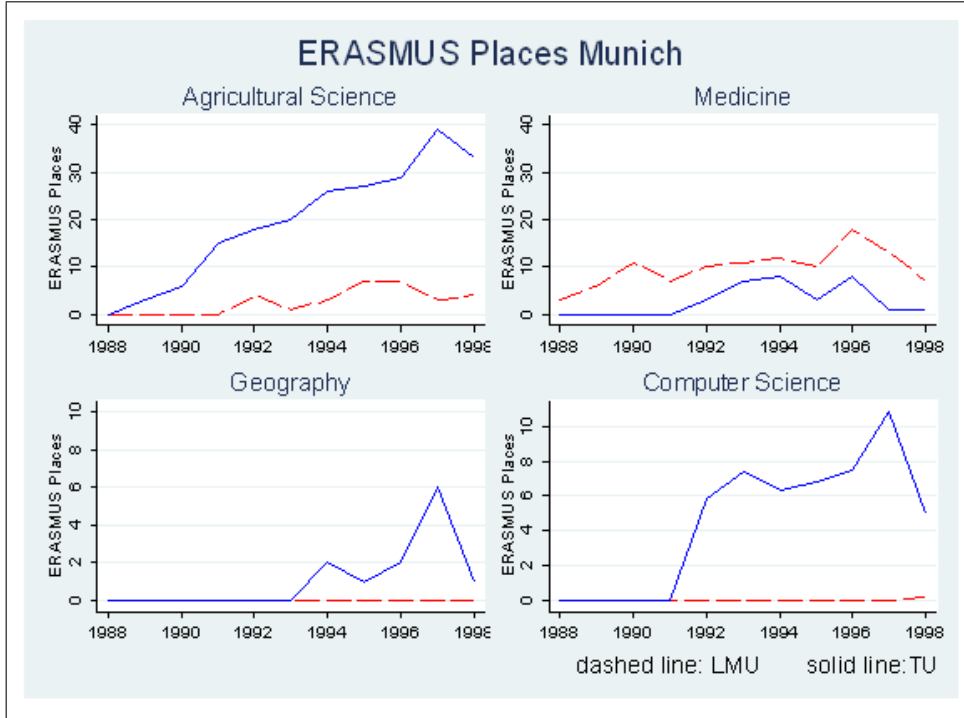


Figure 4: ERASMUS at Universities in Munich

The introduction of the ERASMUS program at a certain department occurred at different points in time at the two universities. After the introduction of the program the number of students going abroad varies over time. We construct two different measures of a student’s exposure to the ERASMUS program. The first variable measures the exact number of ERASMUS scholarships, offered by each department at every university in a given year. In order to account for differences in size of different departments, we normalize the number of scholarships with the number of students competing for these scholarships. We use the number of first year students in the fall semester of the academic year 1992/93 for this normalization. Again, these student numbers are at the university-subject level. In the following we refer to this variable as *ERASMUS ratio*. This measure for a student’s exposure to the scholarship program varies at the university, subject, year level.

The second ERASMUS measure is an indicator, which takes the value one if the student’s department offered an ERASMUS scholarship in the relevant year. In almost all cases this variable is 0 until a certain department joins the ERASMUS program and 1 thereafter, because very few departments leave the program after they have joined. We denote this variable *ERASMUS indicator*, which varies in the dimensions university, subject, and year as well. On the one hand this variable is less powerful than the other measure because it does not capture changes in the number of ERASMUS scholarships provided, which certainly affect a student’s probability of studying abroad. On the other

was evaluated based on the universities’ past performance and on their strategic plans for the future.

hand, however, this disadvantage may be an advantage if changes in student demand affect the number of ERASMUS places. It may be the case that certain cohorts or individual students demand more ERASMUS places. This would affect the credibility of any instrument using the actual number of ERASMUS scholarships. Even though we believe that this is not an important concern in practice we propose our ERASMUS indicator variable as an alternative, which deals with this concern. The ERASMUS indicator variable is 0 if a department does not offer any ERASMUS scholarships and 1 if any ERASMUS scholarship is offered. Using the ERASMUS indicator as an instrument amounts to a classical difference-in-differences estimator comparing students before and after the introduction of an exchange program for their subject at their university. The only way in which student demand may affect this instrument is through triggering the introduction of ERASMUS in the relevant department, which we believe is extremely unlikely: The usual way in which a department introduces the program is through an active professor who happens to have contacts with professors at foreign universities. Furthermore, administrative hurdles when setting up the program stand in the way of any short term responses to student demand. If a certain department wants to join the ERASMUS program, the university has to apply for a certification at the European Commission. Moreover, the department has to find partner universities, which are willing to exchange students with the given department. Clearing these administrative hurdles takes time. It is therefore very unlikely that departments are able to set up a new ERASMUS program in time for a certain cohort to be able to benefit from that introduction.

Where does the over-time variation in ERASMUS come from? University participation in ERASMUS operated through Inter-University Cooperation Programs (ICP), in which groups of university departments from different countries formed a network covered by an ICP agreement. As a long-run program, departments could decide not only whether at all to participate, but also when to enter the scheme. This provides us with a lot of variation in program participation. One way to interpret the evolution in ERASMUS scholarships is to think of the cooperations as an emerging network. Many departments would at some point enter ERASMUS with a few links to departments at foreign universities. Over time other foreign departments would be taken into the network. Similarly the German department itself would enter other (possibly new) cooperation networks. As can be seen in Figure 4 the number of students participating in the exchange may differ substantially from year to year.

In order to visualize how students are affected by these shocks of being faced with more or less exchange opportunity, we perform the following event study: For each student's initial university and subject choice, we observe whether there was at any point an ERASMUS cooperation in the time period we observe. We group students by whether they entered the university before or after the introduction of the ERASMUS scheme, and by how many years. In the following figure we plot the time difference between the

introduction of ERASMUS and university entry against the probability of going abroad. Keeping in mind that students usually start two or three years before going abroad, we get the following prediction: According to our hypothesis, the probability of studying abroad should be flat for the cohorts starting more than three years before the introduction. The cohorts starting three or two years before the introduction of ERASMUS would then be the first ones to be affected, and we expect an increase in the proportion of students studying abroad from then on. The results can be seen in Figure 5.

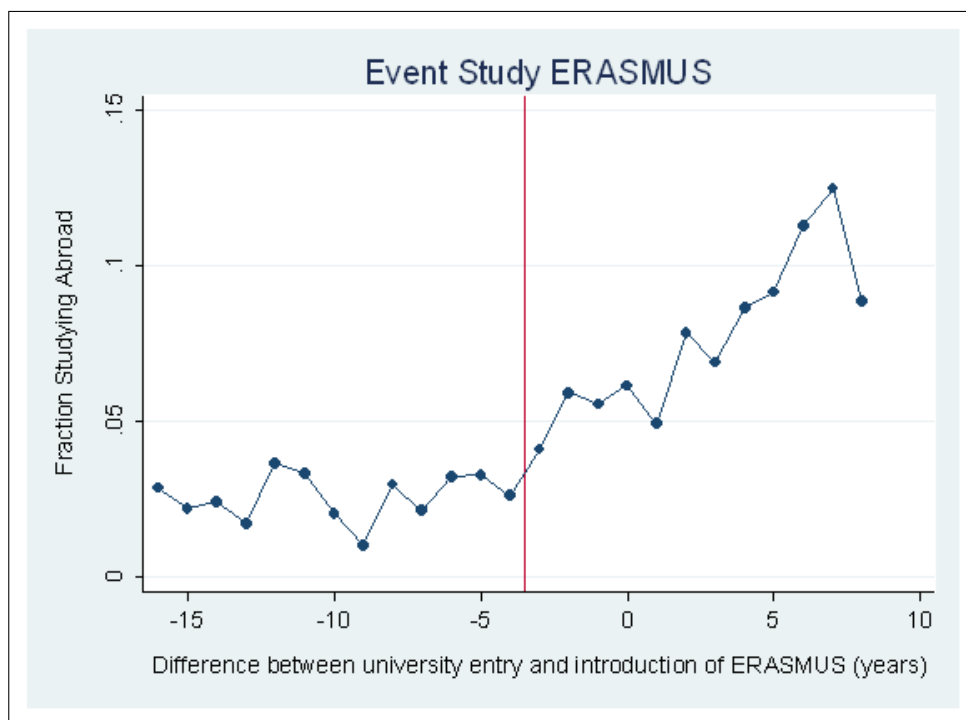


Figure 5: Event Study ERASMUS

This figure provides evidence that the ERASMUS scheme affects the different cohorts in a very precise way. Closely following our prediction, the probability of studying abroad is low and flat before the introduction of ERASMUS, and goes up steeply afterwards. Furthermore, our data provides evidence that institutions which have *not yet* introduced ERASMUS are similar to those which *never* introduce ERASMUS: Students at institutions which never introduce ERASMUS have a probability of studying abroad of 2.6%, which closely matches the average for the not-yet-affected students in the graph above.

The usefulness of ERASMUS as an Instrumental Variable (IV) depends on two conditions: First, the IV needs to be correlated with the endogenous variable (studying abroad). Second, it needs to be uncorrelated with the error term u of the outcome equation. The rank condition can be verified by looking at the first stage regression, which we present in the following section of the paper.

The exclusion restriction requires that there is no direct effect of the instrument on the outcome except through the endogenous variable. Since ERASMUS scholarships are restricted to educational exchange for undergraduate students, this is arguably satisfied. Furthermore, it is required that our IV is not correlated with any other variable which affects the outcome. We argue that this is satisfied through our empirical strategy. We address possible concerns in turn. In particular, we consider the '*university quality*' argument, the '*big push*' argument, and the '*student selection*' argument.

It may be the case that university quality affects both our instrument and the outcome: If good universities offered more ERASMUS scholarships, and if at the same time good universities produced higher skilled graduates who are more likely to find a job in a different country, the exclusion restriction would be violated. A similar argument applies if students at good universities were particularly motivated and able, making them more mobile even in the absence of ERASMUS. We take care of this problem by including university fixed effects (FE) in all our regressions, which control for any permanent university attribute. A closely related criticism is that even within a given university some faculties, such as sciences, may be better than other faculties. We show that our results also hold if we include faculty times university fixed effects, which control for any permanent difference between faculties even within a given university.

A common concern in IV estimation is that using a particular policy may carry the risk of not accounting for other policies which were implemented at the same time. Consider a university which at some point decides to raise its profile, and implements a number of measures designed to increase the attractiveness of the institution. For example, it could engage in more active exchange activities also outside Europe and possibly implement other measures at the same time. One way to demonstrate that this is unlikely to be the case is by showing that the ERASMUS program had a very precise and narrow impact. We use information of where students went to study abroad, grouped into three categories (Europe, United States, and other areas). We show below, that the ERASMUS program only affected the exchange to Europe but not to other areas. This provides additional reassurance that our instrument has a very precise effect, only affecting a student's probability to study abroad in Europe.

Another concern is that students may choose a particular university-subject combination because of scholarship availability. Particularly mobile students might choose universities and departments offering a large number of ERASMUS scholarships. This would again bias our IV results. We do not think that this is likely to occur, however. Since most of our sampled individuals started their university career long before the widespread availability of the internet, information about exchange programmes was extremely difficult to obtain. Even nowadays it is hard to obtain information on the availability of ERASMUS scholarships on departmental websites of German universities. It is much more likely that enrollment decisions are based on factors such as reputation

of the university or closeness to home. We also address the student selection argument directly by controlling for distance between the state of a student’s highschool degree and her university. Controlling for earlier mobility does not affect our results. A related worry is that students may change university or department after they figured out that their university and/or department offers little opportunity to study abroad. Using the cooperations measures from a student’s *first* enrollment enables us to avoid any problems of selective mobility after university entry of the student.

In summary, we believe that in our empirical framework ERASMUS scholarship availability provides us with exogenous variation in the student’s decision to study abroad. After controlling for university FE, subject FE, graduate cohort FE, and year abroad FE we argue that the remaining variation can be understood as random shocks to the student. Depending on the cohort, subject, and university she belongs to, she will find a different set of international cooperations at her disposal. These differences in scholarship availability will then translate into variation in the decision to study abroad. Using ERASMUS as an instrumental variable we can therefore estimate equations (1) and (2) to find the causal effect of studying abroad. In all the regressions reported below we account for any dependence between observations by clustering all results on a university-subject level. This leaves the error correlation within clusters completely unrestricted and allows for arbitrary with-in cluster dependence. The clustering, therefore, not only allows arbitrary correlations of errors for students from a graduate cohort at a certain university and subject combination but also allows the errors of a university-subject combination to be serially correlated. The following sections discuss the results we obtain using our identification strategy.

4 First Stage Results

Table 2 presents the results from our first stage estimates. In this context the first stage regressions are interesting in its own right as one can learn about the factors affecting an individual’s decision to study abroad. We regress an indicator for studying abroad on our measure for exposure to the ERASMUS program and other control variables. In column (1) we use the ratio of ERASMUS places to the number of students in the relevant cohort as our measure for a student’s exposure to ERASMUS. The coefficient on ERASMUS is highly significant with an F-statistic of 17.4. The coefficient indicates that an increase in the ratio of ERASMUS places from say 5 percent to 10 percent increases an individual’s probability of studying abroad by about 1 percentage point. Analyzing the effect of our control variables one can see that a student’s gender does not seem to affect her probability of studying abroad. Students who have completed an apprenticeship before enrolling at the university are about 1.3 percentage points less likely to study abroad during their

undergraduate studies. Not surprisingly, labor market experience after obtaining a degree does not affect an individual's decision to study abroad.

In column (2) we use an indicator for whether the student's department participates in the ERASMUS program as our measure for exposure to the ERASMUS program. Once again the coefficient on the ERASMUS measure is highly significant with an F-statistic of 9.1. The coefficient indicates that a student's probability of studying abroad increases by about 1.4 percentage points if her department participates in the ERASMUS program. The coefficients for the control variables are very similar to the ones reported in column (1).

In columns (3) and (4) we add controls for a student's parental background to our specifications. Parental occupation is measured in five categories for each parent. We include a full set of dummies for these categories in these specification. To save space we do not report the coefficients on all those dummies.⁹ Parental education is measured as the education level achieved by the parent with more education. We split parental education into three categories to account for the characteristics of the education system in Germany. The omitted category contains students with parents who obtained up to 13 years of education. This group consists of students with parents who did not receive a school degree (very few), parents with lower types of secondary schooling (*Hauptschule* or *Realschule*) usually followed by an apprenticeship, and parents who obtained a high school degree but no further education (very few). The second group is comprised of students where the better educated parent either obtained an advanced craftsmanship degree (*Meister*) or some higher education, such as a degree from a university of applied science (*Fachhochschule*) but not a degree from a university. The third group includes students who have at least one parent holding a university degree. The results indicate that students with better educated parents are significantly more likely to study abroad. Students with a parent whose education level falls in our second category are about 1 percentage point more likely to study abroad than students with parents who have at most 13 years of education. Students with a parent holding a university degree are about 3.4 percentage points more likely to study abroad. The coefficients and standard errors of our ERASMUS measures are hardly affected by including the controls for parental background. This is reassuring as it indicates that explicitly accounting for socioeconomic background does not alter the power of our intervention on students' behavior.

The specifications reported in columns (5) and (6) include controls for a student's mobility at the beginning of her studies. The first mobility measure is an indicator for whether the student has her first university enrolment in the federal state (*Bundesland*) where she graduated from high school. We add a further control, which measures the distance from the state where a student obtained her high school degree to the state

⁹More detailed results with reported coefficients for the occupational dummies are available from the authors upon request.

of her first university enrollment. These measures arguably capture some of a student's inherent taste for mobility. The results indicate that students who study in the state of their final high school degree are about 1.4 percentage points less likely to study abroad. Even though the coefficient on the distance measure for pre-university mobility has the expected positive sign (those who enrol at a university further away from the state where they obtained their high school degree are more likely to study abroad), it is not significantly different from 0. The estimates for the effect of the ERASMUS program are not affected by including the controls for early mobility. This increases the credibility of our instruments as it indicates that even accounting for previous mobility investments leaves our intervention unaffected.

In the following we show that the ERASMUS program has a very specific effect on studying abroad, as it only affects the probability of studying abroad in a European country but not in countries outside Europe. This is a clear indication that the introduction of ERASMUS was not one of many policies to improve university quality, which in turn could affect the outcome as well. In order to demonstrate the precise effect of studying abroad we create three indicator variables, which take the value 1 if an individual studied abroad in Europe, the USA, or in any other foreign country respectively. We expect that our instrument only affects the probability of studying abroad in Europe as the ERASMUS program only offers scholarships for studying abroad in European partner universities. In columns (1) and (2) of Table 3 we replace the dependent variable of our usual first stage regression (studying abroad in any country) with an indicator for studying abroad *in Europe* instead. The specification reported in column (1) is estimated using the ratio of ERASMUS scholarships. In column (2) we present the results from using the ERASMUS dummy as our measure for exposure to the program. The coefficients on the ERASMUS measures are strong and highly significant. The magnitude of the ERASMUS coefficient is similar to the one obtained when we use the general definition of studying abroad, which is not surprising because more than 60 percent of all student exchange from Germany is directed to European countries.

We use an indicator for studying abroad in the US as our dependent variable for the specifications reported in columns (3) and (4). The coefficient on the ERASMUS measures is not significantly different from 0. Furthermore, the point estimates of the ERASMUS measures are very close to 0. In columns (5) and (6) we report specifications where we use an indicator for studying abroad in any country outside Europe or the US as the dependent variable. The results indicate that the ERASMUS program has no effect on the probability of studying abroad in countries outside Europe or the US. The evidence from Table 3 strongly suggests that the introduction of the ERASMUS program was not correlated with the introduction of a broader set of policies, which may affect later labor market outcomes. These results increase our confidence for using the ERASMUS program as an instrumental variable for studying abroad. In the following section we use

this IV to obtain estimates of the effect of studying abroad on the probability of working in a foreign country later in life.

5 Main Results and Sensitivity Analysis

The OLS results reported in column (1) of Table 4 confirm that graduates who spent some time at a foreign university are more likely to work abroad later in life. Our OLS result indicates that the effect of studying abroad is about 6 percentage points. Note that as before, all our standard errors are clustered at the university-subject level. As discussed before we do not want to attribute causality to the OLS results. This is because the factors affecting an individual's decision to study abroad are likely to affect her decision to work abroad later on as well. Therefore, we now turn to our IV results.

In column (2) of Table 4 we present the first set of IV results using the ratio of ERASMUS scholarships to the total number of students in the department as an instrument. We find that studying abroad increases an individual's probability to work in a foreign country by about 24 percentage points. Given the relatively large standard error this effect is significant at the ten percent level. We also find that females are about 0.6 percentage points more likely to work abroad. Furthermore, we find that individuals who completed an apprenticeship before they enrolled at university are about 0.7 percentage points less likely to work abroad. This effect is not surprising as people who complete an apprenticeship may be more likely to go back to work at the same firm where they completed their apprenticeship, which will usually be located in Germany. We also find that labor market experience has an effect on the probability of working abroad. The coefficient indicate that individuals with one more year of experience in the labor market are about 0.5 percentage points more likely to work abroad. Within a survey wave, there is relatively little variation in potential experience, and this estimate also captures the increased probability of working abroad from the initial to the follow-up survey. Over and above this annual measure of potential experience, the indicator variable for the follow-up survey does not show up significantly.

Column (3) adds interactions of the ERASMUS ratio with a full set of subject dummies as instruments. Including these interactions allows the impact of ERASMUS to differ across subjects. This may be relevant as it is quite likely that a student exchange program has a different impact for students studying different subjects. Including the interactions enormously increases the precision of our estimates. The coefficient on studying abroad is significant at the 5 percent level and indicates that studying abroad increases an individual's probability of working abroad later in life by about 14 percentage points. The coefficients on the control variables are very similar to the ones reported in column

(2).

Even though we do not believe that student demand has a large impact on the number of ERASMUS scholarships we address this concern by using the *ERASMUS indicator* as our instrument in the specifications reported in columns (4) and (5). In column (4) we present the results from using the ERASMUS indicator as the only instrument. The standard errors on the coefficient for studying abroad increases a lot, because the dummy for offering any ERASMUS scholarships is a much less precise measure of a student's exposure to exchange opportunities. The point estimate, however, is very similar to the one we obtain if we use the *ERASMUS ratio* instrument.

In column (5) we show that using the interactions of the ERASMUS indicator with a full set of subject dummies increases the precision of our estimates. The estimated coefficient on studying abroad indicates that studying abroad increases an individual's probability of studying abroad by about 19 percentage points. As before, the coefficients on the other variables are hardly affected by using the indicator measure instead of the ratio measure of ERASMUS. Even though we lose some precision by using the ERASMUS indicator as our IV the results are very similar to ones obtained if we use the ERASMUS ratio. Given these results we are confident to say that our results reflect a supply-side increase in scholarship availability, rather than students' demand.

In summary, our IV results indicate that studying abroad increases the probability of working abroad by around 15 to 20 percentage points. In the following, we show that our results are robust to a number of specification checks.

There may be a worry that students from different family backgrounds not only choose universities with different provision of ERASMUS scholarships but also exhibit different propensities to work in a foreign country. As long as this effect is constant over time we deal with this problem by estimating all equations including university fixed effects. It could be possible, however, that people from different backgrounds react differently to the introduction of an ERASMUS program or changes in the number of scholarships. In order to address this concern we add controls for parental education and occupation to our main specification. It is evident from looking at Table 5 that including the measures for parental background does hardly affect our estimates of the effect of studying abroad. Students from better educated parents are between 0.5 and 1 percentage points more likely to work abroad. This effect, however, is not always significant.

Another concern is that students with a taste for mobility chose universities or departments with a lot of ERASMUS scholarships. Our IV estimates would be biased if these individuals were more likely to work abroad later in life. In the following we present a powerful test, which directly addresses this concern. We add two variables which control for a student's mobility at the start of her university career. The first variable indicates whether the student enrolls in university in the state (*Bundesland*) where she obtained her highschool diploma (*Abitur*). The second mobility variable measures the distance from

the state where she obtained her highschool diploma to the state of her first university enrolment. Including those two mobility variables does hardly affect the estimates for the effect of studying abroad as can be seen from looking at Table 6. The coefficient on the distance measure for early mobility indicates that individuals who chose to study further away from the state where they received their highschool diploma are more likely to work abroad later in life. At the same time, the results from Table 6 indicate that the effect of studying abroad remains unchanged.

Individuals may be more likely to work abroad if they know more foreigners. There are at least two channels through which the number of contacts to foreigners may affect the likelihood of working abroad. One channel may be an increased number of contacts to future business partners. A further channel may be that contacts to foreigners increase an individual's taste for foreign cultures which may affect her probability of working abroad. As the ERASMUS program is at least partly reciprocal, universities offering more ERASMUS scholarships may also enroll more foreign students. This could then increase the student's propensity to work abroad later on and therefore bias our IV results. In Table 7 we present the results from adding the university wide ratio of foreign students over the total number of students in a student's cohort¹⁰ to our specification. Adding this control hardly affects the coefficient on studying abroad. The coefficient on our measure for the exposure to foreign students is highly significant but rather small in magnitude. The estimated coefficient indicates that increasing the percentage of foreign students at a student's home university from say 5 to 15 percent increases her probability of working abroad by about 0.08 percentage points.

In the following we check whether our results are driven by time trends in our variables of interest. Including graduate cohort FE (as in all specifications) guarantees that we do not identify the effect of studying abroad on working abroad from overall time trends. There may be a worry, however, that students studying certain subjects exhibit time trends in both studying abroad and working abroad. To address this issue we include linear subject specific time trends. The results of this exercise are reported in the second panel of Table 8. Apart from the specification reported in column (3) the inclusion of the subject specific time trends hardly affects the coefficient of studying abroad. The increase in the standard error, however, renders the estimates insignificant.

It may be the case that groups of departments within a university differ in quality or in their ability to foster international exchange. We address this concern by including a full set of department group times university fixed effects. We thus use a separate fixed effects for say sciences or languages at a certain university. Including this fine level of FEs hardly affects the estimates using the ERASMUS ratio instrument. Not surprisingly the estimates using the ERASMUS indicator instrument are slightly more affected. The

¹⁰We use the ratio at the middle of the average student's university career as the relevant measure for contacts to foreigners.

order of magnitude of the estimate, however, is preserved.

It is reassuring that the inclusion of time trends or a finer set of fixed effects does not have a huge impact on our estimates. This and the fact that our estimates are hardly affected by including controls for parental background, for early mobility, and for the number of foreign students at the home university makes us confident that using the ERASMUS program as a source of exogenous variation is a credible identification strategy to estimate the causal effect of studying abroad on later labor market mobility.

One defining feature of our results is that the IV results are substantially higher than the corresponding OLS result. We interpret this finding in terms of heterogeneity in returns: It is unlikely that all students will be affected in the same way by the intervention of studying abroad. It is much more likely that the effect of studying abroad itself varies across the student population. We follow Imbens & Angrist (1994) and interpret our estimates as a Local Average Treatment Effect (LATE): The IV results show the average effect for the subgroup which has been affected by the instrument. In the context of our instrument, this group is well-defined: It is the group of students who would not have studied abroad without the ERASMUS program, but decide to study abroad when ERASMUS is implemented. Since they are the students who have been affected by the ERASMUS program, our estimates are of immediate interest to policy makers.

What are the characteristics of these switchers? In the absence of credit constraints, this will be the group of students for whom the cost of studying abroad is slightly above the returns without ERASMUS. The introduction of ERASMUS can be understood as a price change which makes the investment into studying abroad worthwhile for these marginal students. In the presence of credit constraints, some students will not be able to invest in studying abroad even though this investment offers a positive return. These students are prevented from realizing the returns to studying abroad by being credit constrained. The following analysis suggests that credit constraints are likely to play a role. We follow Kling (2001) to interpret IV as a weighted average, where the weight is determined by the magnitude of the first stage, the variance of the instrument, and the sample fraction of each group. We use this decomposition to compute the corresponding weight along a characteristic of interest: We proxy credit constraints with an indicator variable which takes the value 1 if the student ever received any federal financial assistance in the BAFOEG scheme during the course of study. In our sample, this is about 41% of all observations (see column (1) in Table 9). Here, we use the ERASMUS indicator variable as instrument. Not surprisingly, the overall proportion of students who study abroad is smaller for the credit-constrained group than for the non-credit constrained group. Interestingly, column (2) indicates that the first stage is stronger for credit constrained students: They react more strongly to the introduction of ERASMUS. Exposure to ERASMUS is similar between the groups (column (3)). Column (4) states that the IV estimate places a weight of 54% on the group of the credit constrained students, which

make up only 41% of the sample. This underlines that IV picks up the marginal student who is affected by the introduction of ERASMUS and that credit constraints are likely to play a role for this group of students.

Another important explanation for finding higher IV returns lies in the very nature of our instrumental variable. ERASMUS promotes student exchange to Europe only. Our instrument therefore only affects individuals who chose a European destination for their stay abroad. It is likely that moving costs are lower if an individual decides to work in a European country compared to a country outside Europe after finishing her degree. The link between studying abroad and working abroad in the same region could therefore be stronger for graduates who have studied abroad in Europe. This of course is a valid argument only if individuals who study in a certain region are more likely to return to work in the same region. In the following we present some evidence to support this hypothesis.

In particular we investigate the question whether individuals who have studied abroad return to work in the same country when they decide to work in a foreign country. There are a number of reasons why mobile graduates may be more likely to work in the countries where they studied: During their study period abroad they may have obtained skills that are of particular relevance in that labor market, e.g. language skills, knowledge about the local labor market, or personal contacts which facilitate a match. On the other hand, it is possible that studying abroad affects the probability of working abroad equally for different work destinations. This would be the case, for example, if studying abroad widens the horizon of the student generally and leads her to search for a job internationally, independent of where she studied before. Especially, studying abroad could operate as a stepping stone to increase the set of feasible destinations. This question is also highly relevant from a policy perspective: The ability of the ERASMUS scheme or other student mobility programs to achieve an integrated European labor market depends on the assumption that students who went abroad to study in Europe are internationally mobile after graduation, but remain in Europe.

Here we present descriptive evidence to address this question for the cohorts 1993, 1997, and 2001.¹¹ We again group location choices into Europe, US, and other areas, and restrict attention to students who work abroad. For each study abroad treatment and study abroad location, the following table shows the conditional probability of being in each work location. Table 10 provides evidence that choices about study abroad locations are sticky, that is that students tend to return to work to the region where they studied abroad. In particular, of the students who studied abroad in Europe and worked internationally after graduation, two thirds end up working in a European country. A χ^2 -test of independence between the study abroad location and the work abroad location is rejected at the one percent level with a test statistic of 28.5.

¹¹For the cohort 1989, we do not have information on locations of study abroad.

6 How Studying Abroad Affects International Labor Market Mobility

The results presented in the previous sections indicate that individuals who study abroad are more likely to work in a foreign country. It is interesting to understand how studying abroad affects an individual's decision to migrate to a foreign country later in life. The HIS questionnaire asked individuals who had already worked abroad to give reasons for why they had chosen to do so. Unfortunately, this question was only administered to individuals from the 1997 graduation cohort. As our instrumental variables strategy relies on over time variation in scholarship availability we cannot apply it here. We therefore provide some summary statistics, which – if only suggestive – may shed light on the way studying abroad affects later labor market mobility.

Students who had worked in a foreign country for at least one month in the five years since graduation were asked to identify the reasons for their decision to work abroad. In Table 11 we present the percentage of the people who indicated that a certain reason had been important in their decision to work abroad. The table shows that the main reasons for working abroad are interest in foreign cultures, interesting offers from abroad, and the initiative of the employer. We split the sample into those who complete all their university education in Germany and those who study abroad for some time during their undergraduate education. Interestingly, while the means are similar in some categories, there are a number of noteworthy differences. Those who have studied abroad are more likely to indicate that their "interest in foreign cultures" has led them to seek employment abroad. It may be the case that studying in a foreign country increased the individual's taste for living abroad, which may in turn increase her probability of migrating later in life. Students who have studied abroad are also significantly more likely to indicate that they chose to work abroad to be with their partner. The answers to this question may suggest that people who studied abroad may have met their partner while studying abroad and therefore consider to work abroad later in life. Of course, this difference may also be driven by assortative mating with more mobile people having more mobile partners. The way this question was stated makes it impossible to distinguish between these alternatives. Meeting a partner abroad may, nonetheless, be a possible channel of the effect of studying abroad. The summary statistics also indicate that those who have studied abroad are more likely to say that they work abroad because of better employment opportunities in the foreign labor market. The difference in the means of the two groups, however, is only significant at the 10 percent level. It is possible that a stay at a foreign university makes it easier to realize opportunities in foreign labor markets, either because those who studied abroad have better information on the foreign labor market or because employers are more willing to offer employment to those individuals. Interestingly, rather than the employment outlook, it is the career prospects abroad where the means are significantly

different at the 1% level, suggesting that those with international study experience seem to be more likely to consider a career abroad.

The statistics presented here provide some suggestive evidence of how studying abroad may alter later international labor market mobility. Further research is necessary to get a better insight into the channels of the effect of studying abroad on working abroad later on.

7 Conclusion

Using exogenous variation in scholarship availability, we are able to identify a causal effect of undergraduate student mobility on later international labor migration. Our strategy exploits the introduction and expansion of the ERASMUS scholarship program. The extent, to which students were exposed to the scholarship scheme, varied widely. We exploit over time-changes in scholarship availability. Accounting for permanent differences between different institutions, different subjects, and different graduate cohorts, our identification relies only on differential over-time change, and can be interpreted as a Diff-in-Diff estimator. Our first-stage shows that the ERASMUS scheme in fact had a strong effect on the students' decision to go abroad, which is not surprising given its scale. We show that the instrument is precise in that it only affects the decision to study in Europe, but not in other locations. Our event study adds further credibility to our instrument, by showing that the probability of studying abroad is low and flat before ERASMUS is introduced, and increases strongly for those students affected by the scholarship.

Our OLS results indicate that the group of students who studied abroad are about 6 percentage points more likely to work abroad later on, controlling for a set of background characteristics, institution and time fixed effects. Our IV results are substantially higher than that, and indicate that the effect of study abroad is between 15 and 20 percentage points. We also provide results which interact the instrument with the students' degree subject. That allows for a differential effect of ERASMUS in different subjects, and adds precision to the results. We interpret the difference between OLS and IV as an indication of heterogeneity in effects: The population which is affected by our instruments reacts particularly strongly to the incentives of the mobility program. This Local Average Treatment Effect (LATE) interpretation is of course of particular interest to policy makers, since it evaluates the effect for the affected subgroup. We show that individuals who are credit constrained are particularly affected by the ERASMUS instrument. Our results suggest that educational mobility programs may have a potentially large role in affecting students' behavior in their labor market mobility decision.

Do scholarship programs for student mobility induce outmigration of skilled young

people? By showing that studying abroad increases the probability of working abroad later on, our evidence provides some support for this hypothesis. There actually is some evidence that scholarship-providing institutions take induced outmigration seriously, and try to reduce cost of returning to the home country (through networking or financial support for a re-integration period) or explicitly condition support on the promise of return migration after the stay at a foreign university.

Clearly, policy implications depend on the point of view. From an EU perspective, ERASMUS is successful in that this student mobility scheme appears to contribute to the development of an integrated European labor market. This is especially so if we take into account the descriptive evidence from the previous section that location choices are sticky, i.e. that mobile students tend to return to the region where they studied before. A national perspective may be more concerned with locating talented graduates within the national boundaries. In this case the assessment may be very different. We stress again that this is only part of the picture — a full 'cost-benefit analysis' would have to take into account many other factors, including whether mobile workers return in the long run, how a country benefits from workers abroad, to what extent outmigration is offset by immigration, how the human capital of students is increased through the stay abroad, and how students value the experience of studying abroad. While it would be of great interest to evaluate these policies explicitly, it is clear that they form a challenging undertaking: Return intentions change with time spent abroad (Dustmann 1996), and our work underlines the view that migration patterns are complex.

There is another implication which is of interest to policymakers. Under the assumption that students from other countries behave similarly to those in our sample, an opportunity to attract talented graduates is to provide student exchange opportunities. Attractive universities and scholarship programs may yield a return through attracting students, part of whom will remain as skilled workers later on.

More generally, our work allows insights into the dynamic implications of educational mobility decisions. Our results indicate that the effects of educational mobility programs go far beyond affecting the decision to study abroad for some time period, but rather reach far into the labor market, and it will be interesting to follow the sample of graduates as their careers unfold. But already at this early stage our results indicate that even short-term mobility investments can lead to significant further mobility investments later on. More generally, we shed light on long-run effects of mobility investments, and the relevance of early mobility decisions. We also provide additional insights into student exchange mobility, a phenomena of worldwide increasing importance. While we take no side in the debate about brain drain versus gains from opportunities, we do think that our study provides important evidence to understand the link between educational exchange mobility and labor market mobility later on.

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8 Tables

Table 1: Summary Statistics

	(1)	(2)	(3)	(4)	(5)
	All	Study Abroad=0	Study Abroad=1	Work Abroad=0	Work Abroad=1
Working abroad	0.035 (0.184)	0.031 (0.175)	0.107 (0.309)	0.000 (0.000)	1.000 (0.000)
Undergraduate study abroad	0.045 (0.207)	0.000 (0.000)	1.000 (0.000)	0.042 (0.120)	0.138 (0.345)
ERASMUS ratio	0.024 (0.055)	0.023 (0.054)	0.047 (0.072)	0.024 (0.055)	0.039 (0.063)
ERASMUS indicator	0.436 (0.496)	0.425 (0.494)	0.662 (0.473)	0.429 (0.495)	0.622 (0.485)
Female	0.421 (0.494)	0.419 (0.493)	0.463 (0.499)	0.419 (0.493)	0.496 (0.500)
Experience	2.824 (2.030)	2.830 (2.030)	2.696 (2.021)	2.817 (2.028)	3.015 (2.093)
Apprenticeship	0.309 (0.462)	0.315 (0.465)	0.183 (0.387)	0.312 (0.463)	0.234 (0.424)
Mother's Education (years)	11.825 (3.306)	11.741 (3.275)	13.609 (3.453)	11.775 (3.295)	13.222 (3.290)
Father's Education (years)	13.331 (3.644)	13.247 (3.637)	15.120 (3.332)	13.28 (3.649)	14.736 (3.216)
Final University Grade ¹	2.068 (0.685)	2.078 (0.627)	1.859 (0.660)	2.074 (0.686)	1.906 (0.644)
Bafoeg indicator ² (Financial Assistance)	0.414 (0.493)	0.418 (0.493)	0.346 (0.476)	0.417 (0.493)	0.355 (0.479)
Observations	38527	36798	1729	37182	1345

¹The final university degree is only available for 37644 students in our sample. (The best grade is 1.0 the worst 4.0) ²The question on financial assistance has been administered since 1993. We therefore have the information on Bafoeg for 24405 individuals in our sample.

Note: This table contains sample means and (in brackets) standard deviations.

Table 2: First Stages

Dependent Variable: Indicator for Study Abroad	(1)	(2)	(3)	(4)	(5)	(6)
ERASMUS Ratio	0.1866 (0.0447)***		0.1847 (0.0442)***		0.1819 (0.0440)***	
ERASMUS Indicator		0.0136 (0.0045)***		0.0134 (0.0045)***		0.0135 (0.0045)***
Female	-0.0027 (0.0033)	-0.0027 (0.0033)	-0.0041 (0.0033)	-0.0042 (0.0033)	-0.0040 (0.0033)	-0.0041 (0.0033)
Apprenticeship	-0.0131 (0.0031)***	-0.0130 (0.0031)***	-0.0086 (0.0030)***	-0.0084 (0.0030)***	-0.0089 (0.0030)***	-0.0088 (0.0030)***
Experience	-0.0019 (0.0014)	-0.0020 (0.0014)	-0.0019 (0.0014)	-0.0019 (0.0014)	-0.0019 (0.0014)	-0.0020 (0.0014)
Parental Education Dummy 2			0.0101 (0.0036)***	0.0102 (0.0036)***	0.0096 (0.0035)***	0.0097 (0.0035)***
Parental Education Dummy 3			0.0339 (0.0043)***	0.0338 (0.0043)***	0.0327 (0.0043)***	0.0326 (0.0043)***
Studying in State of Highschool Degree					-0.0136 (0.0067)**	-0.0137 (0.0067)**
Distance to High School State (100km)					0.0018 (0.0018)	0.0018 (0.0017)
Follow-up Survey (Dummy)	0.0076 (0.0054)	0.0078 (0.0054)	0.0073 (0.0054)	0.0076 (0.0054)	0.0074 (0.0054)	0.0077 (0.0054)
Parental Occupation Dummies			✓	✓	✓	✓
Graduate Cohort FE	✓	✓	✓	✓	✓	✓
Year Abroad FE	✓	✓	✓	✓	✓	✓
Subject FE	✓	✓	✓	✓	✓	✓
University FE	✓	✓	✓	✓	✓	✓
Instruments:						
ERASMUS	Ratio	Indicator	Ratio	Indicator	Ratio	Indicator
N	38527	38527	38527	38527	38527	38527
R-squared	0.066	0.065			0.073	0.072
F-stat of Instrument(s)	17.41	9.09	17.43	8.89	17.11	9.04

***significant at the 1% level **significant at the 5% level *significant at the 10% level
All standard errors are clustered at the university*subject level.

Table 3: Falsification Exercise: First Stages with Different Destinations

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent Variable: Study Abroad in a certain area						
ERASMUS Ratio	0.1840 (0.0419)***	Europe	USA	USA	Rest	Rest
ERASMUS Indicator		0.0159 (0.0039)***		-0.0018 (0.0019)	0.0046 (0.0070)	0.0009 (0.0012)
Female	-0.0016 (0.0026)	-0.0016 (0.0027)	-0.0011 (0.0011)	-0.0011 (0.0011)	-0.0015 (0.0009)*	-0.0015 (0.0009)*
Apprenticeship	-0.0049 (0.0025)*	-0.0048 (0.0025)*	-0.0018 (0.0011)	-0.0017 (0.0011)	-0.0007 (0.0008)	-0.0007 (0.0008)
Experience	-0.0011 (0.0011)	-0.0012 (0.0011)	0.0004 (0.0005)	0.0004 (0.0005)	-0.0004 (0.0003)	-0.0004 (0.0003)
Parental Education Dummy 2	-0.0014 (0.0024)	-0.0015 (0.0024)	-0.0002 (0.0011)	-0.0002 (0.0011)	-0.0000 (0.0009)	-0.0000 (0.0009)
Parental Education Dummy 3	0.0154 (0.0033)***	0.0151 (0.0033)***	0.0037 (0.0015)	0.0036 (0.0015)	-0.0001 (0.0009)	-0.0001 (0.0009)
Studying in State of Highschool Degree	-0.0105 (0.0054)**	-0.0106 (0.0054)**	-0.0005 (0.0022)	-0.0005 (0.0022)	0.0013 (0.0022)	0.0013 (0.0022)
Distance to High School State (100km)	0.0010 (0.014)	0.0011 (0.014)	-0.0002 (0.0006)	-0.0002 (0.0006)	0.0006 (0.0006)	0.0006 (0.0006)
Follow-up Survey (Dummy)	0.0045 (0.0043)	0.0048 (0.0044)	-0.0014 (0.0019)	-0.0014 (0.0018)	0.0014 (0.0022)	0.0014 (0.0012)
Parental Occupation Dummies			✓	✓	✓	✓
Graduate Cohort FE	✓	✓	✓	✓	✓	✓
Year Abroad FE	✓	✓	✓	✓	✓	✓
Subject FE	✓	✓	✓	✓	✓	✓
University FE	✓	✓	✓	✓	✓	✓
Instruments:						
ERASMUS	Ratio	Indicator	Ratio	Indicator	Ratio	Indicator
N	38527	38527	38527	38527	38527	38527
R-squared	0.064	0.063	0.074	0.074	0.032	0.032
F-stat of Instrument(s)	19.29	16.82	0.83	0.08	0.44	0.57

***significant at the 1% level **significant at the 5% level *significant at the 10% level

All standard errors are clustered at the university*subject level.

Table 4: Main Results

Dependent Variable: Working Abroad

	(1)	(2)	(3)	(4)	(5)
Estimation Method	OLS	IV	IV	IV	IV
Study Abroad	0.0611 (0.0092)***	0.2386 (0.1416)*	0.1444 (0.0582)**	0.2342 (0.2556)	0.1890 (0.0820)**
Female	0.0060 (0.0024)**	0.0064 (0.0025)***	0.0062 (0.0024)***	0.0064 (0.0025)***	0.0063 (0.0024)***
Apprenticeship	-0.0065 (0.0023)***	-0.0042 (0.0029)	-0.0054 (0.0024)**	-0.0043 (0.0039)	-0.0048 (0.0026)*
Experience	0.0047 (0.0014)***	0.0051 (0.0014)***	0.0049 (0.0014)***	0.0051 (0.0015)***	0.0050 (0.0014)***
Follow Up Survey (Dummy)	-0.0038 (0.0052)	-0.0053 (0.0054)	-0.0045 (0.0052)	-0.0052 (0.0057)	-0.0049 (0.0053)
Graduate Cohort FE	✓	✓	✓	✓	✓
Year Abroad FE	✓	✓	✓	✓	✓
Subject FE	✓	✓	✓	✓	✓
University FE	✓	✓	✓	✓	✓
Instruments:					
ERASMUS		Ratio	Ratio	Indicator	Indicator
Interactions with subject			✓		✓
N	38527	38527	38527	38527	38527
R-squared	0.038	0.001	0.030	0.003	0.019
F-stat First Stage		17.41	11.11	9.09	3.66

***significant at 1% level

**significant at 5% level

*significant at 10% level

All standard errors are clustered at the university*subject level. Dependent variable is an indicator for whether the respondent works abroad at the time of the survey. *Study abroad* is an indicator for whether the student spends part of her university career at a foreign university. See text for further details.

Table 5: Sensitivity Analysis 1 (Parental Background)

Dependent Variable: Dummy for Working Abroad

	(1)	(2)	(3)	(4)	(5)
Estimation Method	OLS	IV	IV	IV	IV
Abroad	0.0589 (0.0091)***	0.2354 (0.1424)*	0.1408 (0.0586)**	0.2404 (0.2602)	0.1858 (0.0840)**
Female	0.0051 (0.0024)**	0.0059 (0.0025)**	0.0055 (0.0024)**	0.0059 (0.0027)**	0.0057 (0.0025)**
Apprenticeship	-0.0043 (0.0023)*	-0.0028 (0.0026)	-0.0036 (0.0024)	-0.0028 (0.0031)	-0.0033 (0.0024)
Experience	0.0047 (0.0014)***	0.0051 (0.0014)***	0.0049 (0.0014)***	0.0051 (0.0015)***	0.0050 (0.0014)***
Follow Up Survey (Dummy)	-0.004 (0.0052)	-0.0054 (0.0054)	-0.0046 (0.0052)	-0.0054 (0.0057)	-0.0050 (0.0053)
Parental Education Dummy 2	0.0076 (0.0027)***	0.0057 (0.0031)*	0.0066 (0.0028)**	0.0056 (0.0039)	0.0061 (0.0028)**
Parental Education Dummy 3	0.0103 (0.0031)	0.0043 (0.0056)	0.0075 (0.0036)**	0.0041 (0.0095)	0.0060 (0.0043)
Parental Occupation Dummies	✓	✓	✓	✓	✓
Graduate Cohort FE	✓	✓	✓	✓	✓
Year Abroad FE	✓	✓	✓	✓	✓
Subject FE	✓	✓	✓	✓	✓
University FE	✓	✓	✓	✓	✓
Instruments:					
ERASMUS		Ratio	Ratio	Indicator	Indicator
Interactions with subject			✓		✓
N	38527	38527	38527	38527	38527
R-squared	0.040	0.0028	0.032	0.001	0.021
F-stat First Stage		17.429	10.907	8.893	3.419

***significant at 1% level

**significant at 5% level

*significant at 10% level

All standard errors are clustered at the university*subject level.

Table 6: Sensitivity Analysis 2 (Early Mobility)

Dependent Variable: Dummy for Working Abroad

	(1)	(2)	(3)	(4)	(5)
Estimation Method	OLS	IV	IV	IV	IV
Abroad	0.0581 (0.0091)***	0.2305 (0.1434)	0.1378 (0.0569)**	0.2451 (0.2592)	0.1789 (0.0830)**
Female	0.0052 (0.0024)**	0.0059 (0.0025)**	0.0055 (0.0024)**	0.0060 (0.0027)**	0.0057 (0.0024)**
Apprenticeship	-0.0046 (0.0023)**	-0.0031 (0.0014)**	-0.0039 (0.0024)*	-0.0030 (0.0032)	-0.0035 (0.0025)
Experience	0.0047 (0.0014)***	0.0051 (0.0014)***	0.0049 (0.0014)***	0.0051 (0.0015)***	0.0050 (0.0014)***
Follow Up Survey (Dummy)	-0.0040 (0.0052)	-0.0053 (0.0054)	-0.0046 (0.0052)	-0.0054 (0.0057)	-0.0050 (0.0053)
Parental Education Dummy 2	0.0072 (0.0027)***	0.0056 (0.0031)*	0.0065 (0.0028)**	0.0055 (0.0038)	0.0061 (0.0028)**
Parental Education Dummy 3	0.0096 (0.0031)***	0.0040 (0.0055)	0.0070 (0.0035)**	0.0035 (0.0091)	0.0057 (0.0042)
Studying in Highschool State	0.0021 (0.0057)	0.0045 (0.0061)	0.0032 (0.0057)	0.0047 (0.0070)	0.0038 (0.0060)
Distance to High School State (100km)	0.0033 (0.0016)**	0.0030 (0.0016)*	0.0031 (0.0016)**	0.0029 (0.0016)*	0.0030 (0.0016)*
Parental Occupation Dummies	✓	✓	✓	✓	✓
Graduate Cohort FE	✓	✓	✓	✓	✓
Year Abroad FE	✓	✓	✓	✓	✓
Subject FE	✓	✓	✓	✓	✓
University FE	✓	✓	✓	✓	✓
Instruments:					
ERASMUS		Ratio	Ratio	Indicator	Indicator
Interactions with subject			✓		✓
N	38527	38527	38527	38527	38527
R-squared	0.040	0.0052	0.033	0.000	0.023
F-stat First Stage		17.107	11.126	9.035	3.425

***significant at 1% level

**significant at 5% level

*significant at 10% level

All standard errors are clustered at the university*subject level.

Table 7: Sensitivity Analysis 3 (Foreign Students at Home University)

Dependent Variable: Dummy for Working Abroad

	(1)	(2)	(3)	(4)	(5)
Estimation Method	OLS	IV	IV	IV	IV
Abroad	0.0581 (0.0091)***	0.2307 (0.1434)	0.1373 (0.0566)**	0.2475 (0.2592)	0.1781 (0.0826)**
Female	0.0052 (0.0024)**	0.0059 (0.0025)**	0.0055 (0.0024)**	0.0060 (0.0027)**	0.0057 (0.0024)**
Apprenticeship	-0.0046 (0.0023)**	-0.0031 (0.0026)	-0.0039 (0.0024)*	-0.0029 (0.0032)	-0.0035 (0.0025)
Experience	0.0047 (0.0014)***	0.0050 (0.0014)***	0.0049 (0.0014)***	0.0054 (0.0015)***	0.0049 (0.0014)***
Follow Up Survey (Dummy)	-0.0039 (0.0052)	-0.0053 (0.0054)	-0.0045 (0.0052)	-0.0054 (0.0057)	-0.0049 (0.0053)
Parental Education Dummy 2	0.0072 (0.0027)***	0.0056 (0.0031)*	0.0065 (0.0028)**	0.0054 (0.0038)	0.0061 (0.0028)**
Parental Education Dummy 3	0.0096 (0.0031)***	0.0040 (0.0054)	0.0071 (0.0035)**	0.0034 (0.0091)	0.0057 (0.0042)
Studying in Highschool State	0.0021 (0.0057)	0.0045 (0.0061)	0.0032 (0.0057)	0.0047 (0.0070)	0.0038 (0.0059)
Distance to High School State (100km)	0.0032 (0.0016)**	0.0030 (0.0016)*	0.0031 (0.0016)**	0.0029 (0.0016)**	0.0030 (0.0016)**
Foreign Students/Total Students	0.0083 (0.0018)***	0.0077 (0.0018)***	0.0080 (0.0018)***	0.0077 (0.0019)***	0.0079 (0.0018)***
Parental Occupation Dummies	✓	✓	✓	✓	✓
Graduate Cohort FE	✓	✓	✓	✓	✓
Year Abroad FE	✓	✓	✓	✓	✓
Subject FE	✓	✓	✓	✓	✓
University FE	✓	✓	✓	✓	✓
Instruments:					
ERASMUS		Ratio	Ratio	Indicator	Indicator
Interactions with subject			✓		✓
N	38527	38527	38527	38527	38527
R-squared	0.040	0.005	0.033	0.000	0.023
F-stat First Stage		17.11	11.12	9.06	3.42

***significant at the 1% level

**significant at the 5% level

*significant at the 10% level

All standard errors are clustered at the university*subject level.

Table 8: Sensitivity Analysis 4 (Time Trends and Additional FE)

	(1)	(2)	(3)	(4)	(5)	
Dependent Variable: Dummy for Working Abroad						
	OLS					
Main specification	coefficient (st. err.) <i>F-stat 1st stage</i>	0.0581 (0.0091)*** 17.107	0.2305 (0.1434) 11.126	0.1378 (0.0569)** 11.126	0.2451 (0.2592) 9.035	0.1789 (0.083)** 9.425
Including Subject-Specific Time Trends	coefficient (st. err.) <i>F-stat 1st stage</i>	0.0576 (0.0091)*** 15.793	0.2438 (0.1515) 15.793	0.0776 (0.0605) 8.682	0.2235 (0.2953) 6.809	0.1860 (0.1138) 1.898
Including University * Subject group FE	coefficient (st. err.) <i>F-stat 1st stage</i>	0.0568 (0.0092)***	0.2892 (0.1690)* 16.851	0.1122 (0.0609)* 13.789	0.3243 (0.2817) 8.130	0.1161 (0.0837) 2.971
Distance home-college variables	✓	✓	✓	✓	✓	✓
Highest Parental Education Dummies	✓	✓	✓	✓	✓	✓
Parental Occupation Dummies	✓	✓	✓	✓	✓	✓
Graduate Cohort FE	✓	✓	✓	✓	✓	✓
Year Abroad FE	✓	✓	✓	✓	✓	✓
Subject FE	✓	✓	✓	✓	✓	✓
Instruments:		Ratio	Ratio	Ratio	Indicator	Indicator
ERASMUS						
Interactions with subject			✓			✓
N		38527	38527	38527	38527	38527

***significant at the 1% level **significant at the 5% level *significant at the 10% level

All standard errors are clustered at the university*subject level. Note: This table only shows results for the coefficient of interest, studying abroad. Regressors not listed include female indicator, apprenticeship, potential experience. Panel 1 reports the results from Table 6. Panel 2 adds time trends for each subject to the main specification. In these regression we also include university FE as before. Panel 3 adds Fixed Effects at the university*subject group level to the main specification. The specifications reported in Panel 3 do not include university FE because we use the finer level of university*subject group FE. See text for details.

Table 9: Heterogeneity in Returns and Credit Constraints

	(1)	(2)	(3)	(4)
	Fraction in Sample	Delta (First Stage)	Lambda	Kling Weight
Financial Aid = 0	0.59	0.011	0.11	0.46
Fianacial Aid = 1	0.41	0.016	0.12	0.54

Table 10: Destinations of work abroad

	Work abroad location			Total	
	Europe	US	Rest		
Study abroad = 0	55.7	8.1	36.2	100.0	
Study abroad = 1 in	Europe	66.4	4.9	28.7	100.0
	US	45.5	27.3	27.3	100.0
	Rest	16.7	0.0	83.3	100.0

Note: For all graduates working abroad, this table shows conditional probabilities of working abroad in one of the three locations Europe, US, and rest of world, conditional on the study abroad treatment and the destination of the stay abroad. Based on 1,316 observations from graduate cohorts 1993, 1997, and 2001.

Table 11: Reasons for working abroad

	All	Study Abroad = 0	Study Abroad = 1	Difference in means (p-value)
Interest in Foreign Cultures	52.95 (1.59)	50.93 (1.71)	67.21 (4.27)	0.000
Received Interesting Offer	35.85 (1.53)	35.35 (1.63)	39.34 (4.44)	0.389
At Employer's Instance	33.40 (1.51)	34.07 (1.62)	28.69 (4.11)	0.239
Better Career Prospects in Germany after Return	25.36 (1.39)	25.81 (1.49)	22.13 (3.77)	0.382
Obtain Qualifications Abroad	16.80 (1.19)	16.86 (1.28)	16.39 (3.37)	0.897
International Research Project	14.77 (1.13)	14.65 (1.21)	15.57 (3.30)	0.788
Partner	10.90 (0.99)	9.77 (1.01)	18.85 (3.56)	0.003
Employment Outlook Abroad	8.66 (0.90)	8.02 (0.93)	13.11 (3.07)	0.061
Career Prospects Abroad	6.52 (0.79)	5.70 (0.79)	12.30 (2.99)	0.006
Number of Observations	982	860	122	

Note: Based on all respondents from the 1997 follow-up survey who have work experience abroad. Table shows percentage of respondents who indicate that a particular reason led them to take up work abroad. Example: 50.93% of respondents indicate that interest in foreign cultures led them to take up work abroad.