

ABSTRACT

This study empirically estimates the rate of return on education as well as compares the difference between general high school (SMA) and vocational high school (SMK). Using the Indonesia Family Life Survey 5 (IFLS 5) data, the study found that one year additional of schooling increases future earnings by 5.7%. Furthermore, SMK graduates earn a 6% less rate of return on education when compared to SMA graduates. In addition, this study used an instrumental variable (IV) to deal with the endogeneity. Overall, the education-earnings relationship is consistent with the Mincerian earning function and the previous evidence that showed earnings progressively increase with education level.

Keywords: Return on education, Human capital, Vocational high school

JEL classification: I21, I26, J24, J30