THE EFFECT OF FINANCIAL REWARDS ON STUDENTS’ ACHIEVEMENT: EVIDENCE FROM A RANDOMIZED EXPERIMENT

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Abstract

This paper reports about a randomized field experiment in which first year university students could earn financial rewards for passing all first year requirements within one year. Financial incentives turn out to have positive effects on achievement of high ability students, whereas they have a negative impact on achievement of low ability students. After three years these effects have increased, suggesting dynamic spillovers. The negative effects for less able students are consistent with results from psychology and behavioral economics showing that external rewards may be detrimental for intrinsic motivation. (JEL: I21, I22, J24)