

Economic Justification for Oxford University's Donation-Based Admissions Policy

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Abstract: This paper systematically examines the rationality of the University of Oxford lowering admissions standards for children of generous benefactors from three perspectives: institutional financial sustainability, market mechanisms and resource allocation, and social stratification with the Matthew Effect. Based on Oxford's annual financial reports, admissions statistics and classical economic theories including public-private goods classification, supply-demand equilibrium and Pareto improvement, this study demonstrates that Oxford, as a quasi-public institution with private good characteristics, can effectively alleviate financial pressure through donation-based admissions. The research finds that the scarcity of educational resources grants Oxford pricing power in the education market, and exchanging donations for admission qualifications constitutes a Pareto improvement that benefits both the university and donor families without harming other stakeholders. Meanwhile, this practice conforms to the Matthew Effect, forming a virtuous cycle of alumni donations and institutional development.

Keywords: University of Oxford; Donation-Based Admissions; Resource Allocation; Pareto Improvement; Matthew Effect; Educational Economics.

1. Introduction

In recent years, the UK has been facing significant economic difficulties due to Brexit and the onset of the COVID-19 pandemic. The UK has been affected in many aspects, including its economy, politics, society, and international status.

By examining the public sector's net debt excluding the Bank of England, it can be observed that since 2007, the debt of the UK public sector has followed chiefly an upward trajectory (Office for Budget Responsibility: Economic and fiscal outlook, p. 13). With the arrival of the pandemic, most of the UK government's funds were invested in the healthcare sector. Government funds have been more dispersedly allocated to various financial and social industries to revive the economy, leading to a reduction in investment in educational resources. In this regard, the University of Oxford could obtain more resources by accepting donations from influential and wealthy individuals and lowering admission standards for their children, while alleviating the financial pressure on the British government and the country's Office for Budget Responsibility.

This essay will use three aspects to illustrate the reasons why it is reasonable for the University of Oxford to obtain more resources by accepting donations from influential and wealthy individuals and lowering admission standards for their children: the current economic situation of the school funding, the market mechanisms and resource allocation, and the social stratification with the Matthew Effect.

2. Data and Methodology

From the current perspective of the school funding economy, the University of Oxford needs more donations from individuals to improve the quality of its educational resources continuously.

The Annual Report of the University of Oxford mentions that "A significant portion of the University's research

activities are supported by competitively awarded grants and contracts from third parties, including the UK Research Councils, UK charities and the European Commission" and "In 2023/24, annual research income totaled £778.9m, reflecting a headline decrease of 1.3% compared to 2022/23. After adjusting for the accounting treatment of the INEOS Group and British Heart Foundation donations in 2022/23, the underlying growth stands at 3%" (Annual Report and Accounts of the University of Oxford, p.16). This data shows that the University of Oxford has suffered some negative impacts on its funding income due to Brexit. However, the funds provided by relevant donation organizations have turned the university's economic growth from negative to positive. This shows that these non-public financial inputs are of great importance to the University of Oxford, and they have made up a large part of the total income of Oxford University.

In a capitalist society, the institutions are divided into two major categories: Public and private. Governments usually set up public institutions, and private persons, companies, or non-governmental organizations generally establish some local and private institutions. It is also possible that some public institutions do not entirely rely on resources and subsidies provided by the government as their sole economic source.

3. Market Mechanisms and Resource Allocation

Most public institutions rely on government support for their funding, and in economics, such economic or non-economic support from the government is referred to as government subsidies.

A government subsidy refers to the financial or non-financial support provided by the government to relevant institutions with investment value, enterprises, individuals, industries, or public institutions through fiscal allocation, tax incentives, and price support.

These advantages help in obtaining investments through

non-governmental means, which also reduces government input. This alleviates the government's burden and economic pressure, allowing it to allocate resources to more important matters, and broadens the scope of the institutions' resource sources.

Based on the characteristics and definitions of the leading institutions and the specific information of the Oxford income constitution, it can be analyzed that Oxford University, as a public school, is closer to a public institution with resource channels other than the government and requires substantial donation funds to ensure high-quality resources for the teaching staff and materials for students.

Meanwhile, the property of the ways to acquire resources of Oxford relates to the economic theory of public goods and private goods. The book *Economics for the IB Diploma* mentions that private goods have excludability and rivalry, while public goods have non-excludability and non-rivalry characteristics.

Table 1. Classification of Goods Based on Rivalry and Excludability

	Excludable	Non-excludable
Rivalrous	Private Goods Computers, books, clothes	Common Pool Resources Forests, rivers, oceans
Non-rivalrous	Quasi-Public Goods Toll roads, museums, education	Public Goods National defence, street lighting

Because of the characteristic that Oxford is affiliated with the UK's educational resources, Oxford has exclusivity and rivalry. So, it is a private good in economics.

The private goods require resource allocation through market mechanisms. Donations represent a typical resource distribution for allocating educational resources to address financial pressures and maintain academic competitiveness.

Therefore, reducing admission standards in exchange for donations from high-income families is a reasonable way to increase the funding income of the University of Oxford.

From the perspective of market mechanisms and resource allocation, as mentioned in the previous paragraph, the funding of the University of Oxford does not entirely depend on the income from the government, so it is a public institution that incorporates private resources. In the economic concept, since the resources of this institution do not solely derive from the government, the private resources it receives, such as donations, need to be analyzed within the framework of market structures and should follow the market allocation mechanism.

In the case of exchanging donations for enrollment qualifications, donations from investors do not affect the number of other students at the school because the supply here is perfectly inelastic. In economics, when the quantity supplied of a good is entirely unaffected by price, this situation is "perfectly inelastic," which appears as a vertical line perpendicular to the horizontal axis in a supply and demand diagram, as shown below.

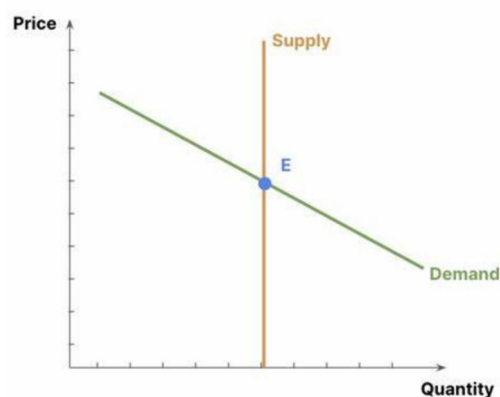


Figure 1. Supply-Demand Equilibrium in Oxford University Admissions

In economics, this is known as the "supply and demand relationship"—a framework that uses graphs to illustrate the dynamics between supply and demand, as shown in the graph. The demand curve represents the quantity of goods consumers desire and the associated costs, while the supply curve indicates the amount of goods producers are willing to sell to buyers. (Encyclopaedia Britannica, Inc., 2013).

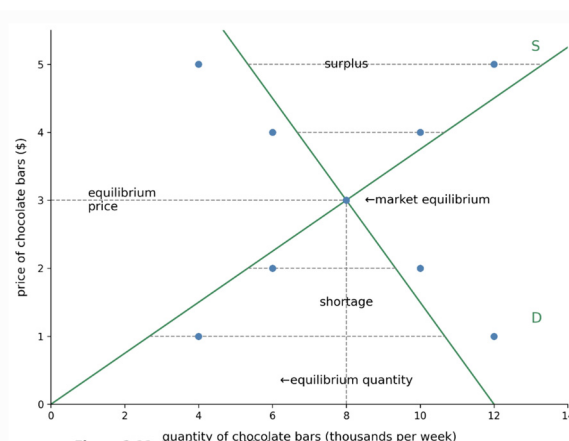


Figure 2. Market Equilibrium

In economics, the phenomenon that the quantity demanded is greater than the quantity supplied is a sign of shortage in the market (*Economics for the IB Diploma Course Book*). The shortage in the market not only shows the disequilibrium of the relationship between demand and supply but also the scarcity of resources. The shortage of resources means that resources such as labor and time are limited. Still, human desires are unlimited, so the limited resources cannot satisfy the unlimited wants of humans. This is precisely why scarcity endows the right to determine the price in market economics.

The data in the ANNUAL ADMISSIONS STATISTICAL REPORT shows that Oxford's undergraduate admission rate is not high; it indicates that Oxford is unable to accept all applicants, leading to a quantity of demand greater than the quantity of supply (ANNUAL ADMISSIONS STATISTICAL REPORT OF OXFORD UNIVERSITY P5).

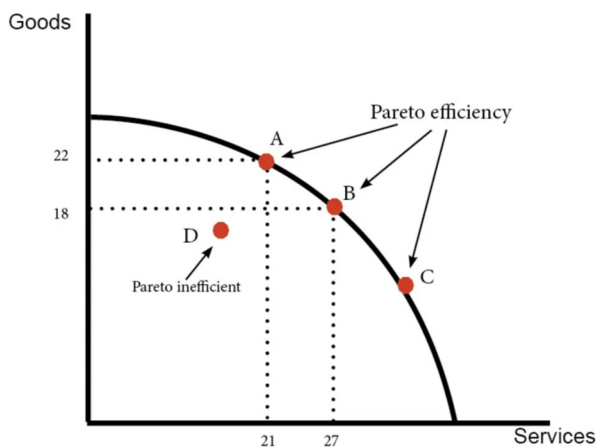
Based on the admission rates of the University of Oxford in recent years, it can be concluded that Oxford does not have enough educational resources for all students. This has led to a shortage situation and allows Oxford University to gain the right of "pricing power". And the "pricing power" means that Oxford University would have the right to let wealthy people exchange donations for their children's admission qualifications.

Table 2. University of Oxford Undergraduate Applications (2019-2023)

Year	UK Students	EU Students	Non-EU Students	Total Applications
2019	13,881	2,773	6,372	23,026
2020	14,102	2,745	6,567	23,414
2021	14,401	2,136	7,801	24,338
2022	14,569	1,787	7,463	23,819
2023	14,636	1,572	7,003	23,211

From the resource allocation perspective, Oxford University's practice of admitting children of donors closely aligns with the economic concept of "Pareto Improvement." This concept refers to a state of resource redistribution where, without diminishing the welfare of any party, adjusting resource allocation enables at least one party to enhance its welfare.

Exchanging donations for admission opportunities can help schools secure sufficient funding and enable children from high-status families to access better educational opportunities. And it is just like a "win-win" adjustment in resource allocation.

**Figure 3.** Pareto efficiency

Thirdly, from the perspectives of social stratification and the Matthew Effect, it describes the trend of the further concentration of advantaged resources toward individuals, groups, or organizations that are already advantaged, and reflects a social law whereby the advantaged continuously strengthen their positions by accumulating advantages under the condition of limited resources.

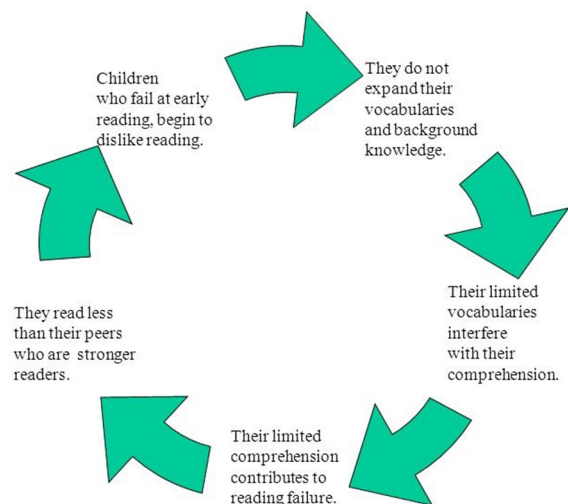
In economics, this can be manifested as "the poor get poorer, and the rich get richer." Suppose an enterprise has abundant initial advantages, such as being a renowned brand or having sufficient capital accumulation. In that case, it will be able to attract more investment and market attention, allowing it to expand and keep its economic edge. In contrast, enterprises having difficulties in accessing resources will not develop as well, exacerbating the financial gap between the two, thus forming a closed loop of "the strong becoming stronger and the weak becoming weaker."

The following example in this picture perfectly illustrates the meaning of the Matthew Effect: As can be seen, children

who experience early reading failures develop resistance to reading, which makes them averse to vocabulary accumulation and text background learning. Their scarcity of knowledge and vocabulary leads to comprehension difficulties and deepening frustration. When they perceive that the gap in reading ability is hard to bridge, frustration and aversion drive them to abandon reading, while reduced reading volume further impairs their skills. This forms a closed loop of "dislike reading—weak ability—more dislike," vividly exemplifying the Matthew Effect. (Stanovich 1986). This reflects what the Matthew Effect is.

This logic applies to the relationship between the University of Oxford and children from the upper social class. For Oxford, accepting outstanding students with abundant funding can be a key to maintaining its institutional influence. Sufficient funds enable it to invest in elite faculty, advanced research facilities, and other resources, attracting top-tier students. Upon graduation, these students become high-achieving alumni who support Oxford through resource donations and reputation enhancement.

4. Social Stratification and the Matthew Effect

**Figure 4.** The Matthew Effect in Educational Development

For families under the Matthew Effect, high-status households often consolidate their educational advantages through donations, forming a closed loop of "donating to schools, securing elite university admission for their children, inheriting social status upon graduation." This is how

privileged families can use their accumulated resources to their advantage.

The alumni economy also reflects the relationship between alum groups and their alma mater. It is an interactive model that takes the social capital of alumni as a bond, relying on the alma mater's educational resources and influence to maximize the optimal allocation of economic resources.

The social capital in alumni groups is wide and varied, creating an interpersonal network where the alma mater's influence and alumni achievements mutually reinforce each other. Alumni give back to their alma mater through donations and other means, which are financial support. This is a pattern at the University of Oxford: business alumni provide internship opportunities for the university, while academic alumni enhance Oxford's academic influence. Oxford's research teams and other educational resources also support alumni children.

Alumni donations alleviate the university's short-term operational financial pressures and form a virtuous cycle of "Oxford cultivating elite talents and new alumni giving back to the alma mater." Oxford is no longer a mere educational institution, but it is similar to a resource hub connecting economic capital and talent; for alumni, leveraging Oxford's resources to expand their careers also enables their children to access better educational opportunities. For society, it facilitates the integration of education and the economy.

In conclusion, Oxford University should consider reducing admission standards in exchange for donations from high-income families. This is because it can not only promote the allocation of educational resources but also enrich the

school's resources and reputation while raising the educational threshold for children of celebrities and achieving a positive cycle in the alumni economy.

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