Incentives and the Supply of Effective Charter Schools

John D. Singleton*

Duke University

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Abstract

Charter school funding is typically set by formulas that provide the same amount for all students regardless of advantage or need. In this paper, I present evidence that this policy skews the distribution of students served by charters towards low-cost populations. I develop and estimate an empirical model of charter school supply and competition to evaluate the effects of funding policies that aim to correct these incentives. To do this, I recover estimates of cost differentials across student populations by linking charter school effectiveness at raising student achievement with unique records of charter school expenditures gathered from Florida. I then leverage revealed preference with entering charter schools' location choices in an entry game to uncover how charter schools respond to competitive and financial incentives. The results indicate that a cost-adjusted funding formula would significantly increase the share of charter schools serving disadvantaged students with little reduction in aggregate effectiveness.

* *john.singleton@duke.edu*