

**Abstract:**

The empirical literature detailing the mechanisms underlying schooling and earnings is limited in the context of Nepal, a country characterized by low enrollment rates and educational levels, high illiteracy and a large disparity between male and female education. This paper employed standard Mincerian earning function method to estimate returns to education using Nepal living standard measurement survey 1995-96. The private rate of return for persons wage employed (both in agriculture as well as not in agriculture) are estimated for the full sample and, by gender, region of birth, age cohorts and province. Ceteris-paribus, one additional year of schooling confers a benefit of 6 % only. The findings report wide earnings disparity across gender. Family background doesn't influence significantly the innate ability of siblings and thereby the earnings. An important finding of this paper is that education is not endogenous in the context of Nepal. Overall, the marginal returns to education level is consistent with the pattern observed world wide – higher returns to primary and higher education as compared to secondary education. By region of birth, the rates of return are higher for those born rural relative to urban counterparts.

*Key words: Rate of return, Schooling, Education, Nepal.*