Abstract

There has been an increasingly heated debate on the issue of how international trade affects the demand for schooling in developing economies. Trade theory suggest that the effect of a change in international prices of export commodities on the demand for schooling is ambiguous; it depends on the relative strengths of the substitution and income effects.

In this paper I examine among other factors the relationship between international prices of export commodities and demand for schooling using household level data from a poor, predominantly agricultural economy. Specifically, I estimate a binary probit model of a school enrollment in Tanzania with a composite international price index and fixed regional effects.

I find that increase in international prices of export commodities is associated with increases in school enrollment. The gender-specific results show that changes in international prices of export commodities have much stronger effect on girls' enrolment than boys' enrolment. The findings on the other conventional determinants of school enrolment were consistent with most previous studies.

These findings suggest that favorable international terms of trade would greatly improve education levels in poor, predominantly commodity exporting economies. Given that most of the commodities exporting economies have virtually negligible power to influence the prices offered in the international markets, there is need to look for alternative ways to help their citizens in increasing/stabilizing their incomes.

Keywords: Market Integration, Trade Liberalization, School Enrollment