Figure 4—2 Long-Run Decisions to Enter or Exit Market, by Average Total Cost and Revenue per Pupil
Figure 4—3 School Choice under Monopolistic Competition

Per pupil compensation

Profit-maximizing level of per-pupil compensation

Average total cost (high start-up cost)

Level of enrollment at school i

Marginal cost curve

Average total cost (low start-up cost)

Marginal revenue curve

Demand curve

Enrollment
Table 4—1 The Ranking of U.S. Public, Charter, and Private Schools, by Characteristics of Their Teachers

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Public school</th>
<th>Charter school</th>
<th>Private school</th>
</tr>
</thead>
<tbody>
<tr>
<td>College rank</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Math or science major</td>
<td>2 (tie)</td>
<td>1</td>
<td>2 (tie)</td>
</tr>
<tr>
<td>Extra instructional hours</td>
<td>2 (tie)</td>
<td>1</td>
<td>2 (tie)</td>
</tr>
<tr>
<td>Teacher control over teaching methods</td>
<td>3</td>
<td>1 (tie)</td>
<td>1 (tie)</td>
</tr>
<tr>
<td>State certification</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Master’s degree</td>
<td>1 (tie)</td>
<td>1 (tie)</td>
<td>2</td>
</tr>
</tbody>
</table>

For a discussion about the impetuses for entering the education market, see Frederick M. Hess, *Revolution at the Margins: The Impact of Competition on Urban School Systems* (Brookings, 2002), pp. 211--15.

ii. The concept of market entrance encompasses both new schools and existing schools that expand their capacity.

iii. Economic theory states that if firms are risk neutral, the degree of uncertainty should not influence entry decisions. However, it is likely that administrators are at least slightly risk averse. Risk aversion becomes important because, as we discuss below, charter schools have difficulty borrowing money specifically because they are viewed by the financial sector as having uncertain future cash flows.


ix. Brian P. Gill and others, Rhetoric versus Reality: What We Know and What We Need to Know about Vouchers and Charter Schools (Santa Monica, Calif.: Rand, 2001).

x. Hess, Revolution at the Margins; Gill and others, Rhetoric versus Reality. Hess found schools with a missionary purpose to be a major source of new supply in a voucher program in Edgewood, Texas.


xviii. The authors are familiar with the San Diego charter schools described here. Rosenstock is principal and chief executive officer of High Tech High, and Betts serves on the board of directors of the Preuss School at the University of California--San Diego.