

## PROFIT-MAXIMIZING APPROACH TO PRICING ONLINE COURSES

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### **Abstract**

Colleges and universities are recently adopting more sophisticated course delivery mechanisms, including online and hybrid delivery systems. Some policymakers have argued that greater availability of online courses will reduce the cost of education and make college more affordable. The purpose of this paper is to construct a theoretical model and to gather empirical evidence to analyze how offering online courses affects the price of college courses. The theoretical model suggests that offering online courses allows the institutions of higher education to price discriminate among students and does not necessarily reduce the price of attending college. Empirical data from the state of Indiana imply that online courses are more expensive for the residents of the state, but cheaper for non-residents. These findings have interesting policy implications.