TIEBOUT SORTING AND DISCRETE CHOICES:  
A NEW EXPLANATION FOR SOCIOECONOMIC DIFFERENCES  
IN THE CONSUMPTION OF SCHOOL QUALITY  

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Abstract  
This paper aims to clarify the underlying basis for the observed differences  
in the consumption of school quality associated with race, education, and  
income. In particular, I attempt to distinguish whether these differences are  
driven primarily by differences in preferences for schooling itself or by  
variation in other factors that affect the residential location, school, and  
housing choices of households with different characteristics. I develop an  
empirical model that provides estimates of the preferences associated with  
each household’s choice of community, school (public vs. private), tenure  
(rent vs. own), and housing. These preferences are allowed to vary with  
household characteristics and endowments including race, education,  
income, and employment location. Because data matching households with  
their particular school and community choices are not available for a large  
study area, I develop an estimation technique based on those recently  
advanced under similar data limitations in the Industrial Organization  
literature for the estimation of demand in differentiated products markets.  

The results of the analysis indicate that the differences in the consumption of  
school quality associated with parental education are driven primarily by  
differences in preferences for schooling itself. The differences in  
consumption associated with race, however, are explained instead by  
differences in the geography of employment opportunities, the demand for  
housing (whether driven by differences in housing preferences or  
discrimination in the housing market), and preferences for the race of one’s  
neighbors. This measured disconnect between the preferences and  
consumption patterns of minority households implies a shortage of  
communities that combine relatively high quality schooling with either poor  
quality housing or geographic proximity to employment centers for minority  
households. That this lack of availability persists despite the fact that  
minority households would be willing to forgo other forms of consumption  
to live in such communities implies a potentially serious imperfection in  
local education markets.