



Law & Economics Fall 2012

**Mamas don't let your babies grow up to be... Lawyers
Summary of Paper by Herwig Schlunk**



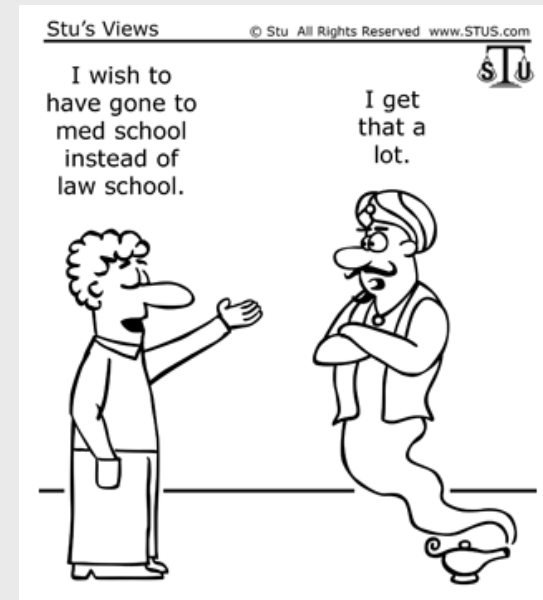


Introduction

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Question and Method

- If your university degree were a bond or a stock
 - would you buy it?
 - Should you buy it?
 - Why or why not?

- Why compare it with a bond or stock?
 - Stock/Bond value = Present value of future income streams
 - University Degree = Present value of future earnings vs. alternatives

- Methodology of analysis: Net present value of the law degree
 - Costs
 - Opportunity cost of attending university
 - Out-of-pocket costs
 - Benefits
 - Earnings as lawyer
 - Cost of living premiums
 - Length of study (Paper: 3 years)
 - Discount rate



Assumptions

Different types of students and different job opportunities

	Also Ran	Solid Performer	Hot Prospect
Grades	Average	Good	Stellar
Law School	Thrid rate	Second or first rate	First rate
Odds to get a "Biglaw" job (paying 160K)	20%	55%	90%
Odds to get a mean salary (paying 77K)	80%	45%	10%



Costs

Costs of a law degree – three years of studying

- Factors considered for the costs of a law degree (three years)
 - All factors depend on the specifics of the students
 - Gross salary the student would earn at an alternative job
 - Tuition and fees
 - Net summer wage from a summer break job

	Also Ran	Solid Performer	Hot Prospect
Opportunity Cost	98'853	129'424	159'408
Tuition and Fees	113'000	128'000	140'000
Net Summer Wages	(10'000)	(15'000)	(20'000)
Total Cost	201'853	242'424	279'408



Benefits

Required minimum Benefits of a law degree – Hurdle compensation for taking a lawjob

- Factors considered for the hurdle compensation
 - Gross salary the student would earn at an alternative job
 - Required overtime due to working at a specific lawfirm (depending on his odds to go to a biglaw or normal law firm)
 - Cost of living premium: biglaw firms are only located in big and expensive cities

	Also Ran	Solid Performer	Hot Prospect
Forth year gross salary	44'349	60'979	77'610
Required overtime pay	8'426	15'855	25'611
Cost of living premium	1'056	4'226	9'290
Hurdle compensation	53'831	81'060	112'511



Present value

Whats the present value of your investment?

- How much more must you earn in the first year to be able to compensate for your opportunity costs?
- The most important value in the calculation is the discount/interest rate
- Comparisons
 - Student loan (paper): 8.5%
 - Student loan Switzerland 2003–2009 (Schwyzer Kantonalbank): 6–8%
 - Regular rate for unsecured loans (paper): 11.99%–16.90%
 - Credit card loan Switzerland (Swisscard, Cornerbank): 12–15%
 - Private equity (single income stream): 30%



Conclusion

1st-year salary premiums and minimum salaries depend highly on applied discount rates

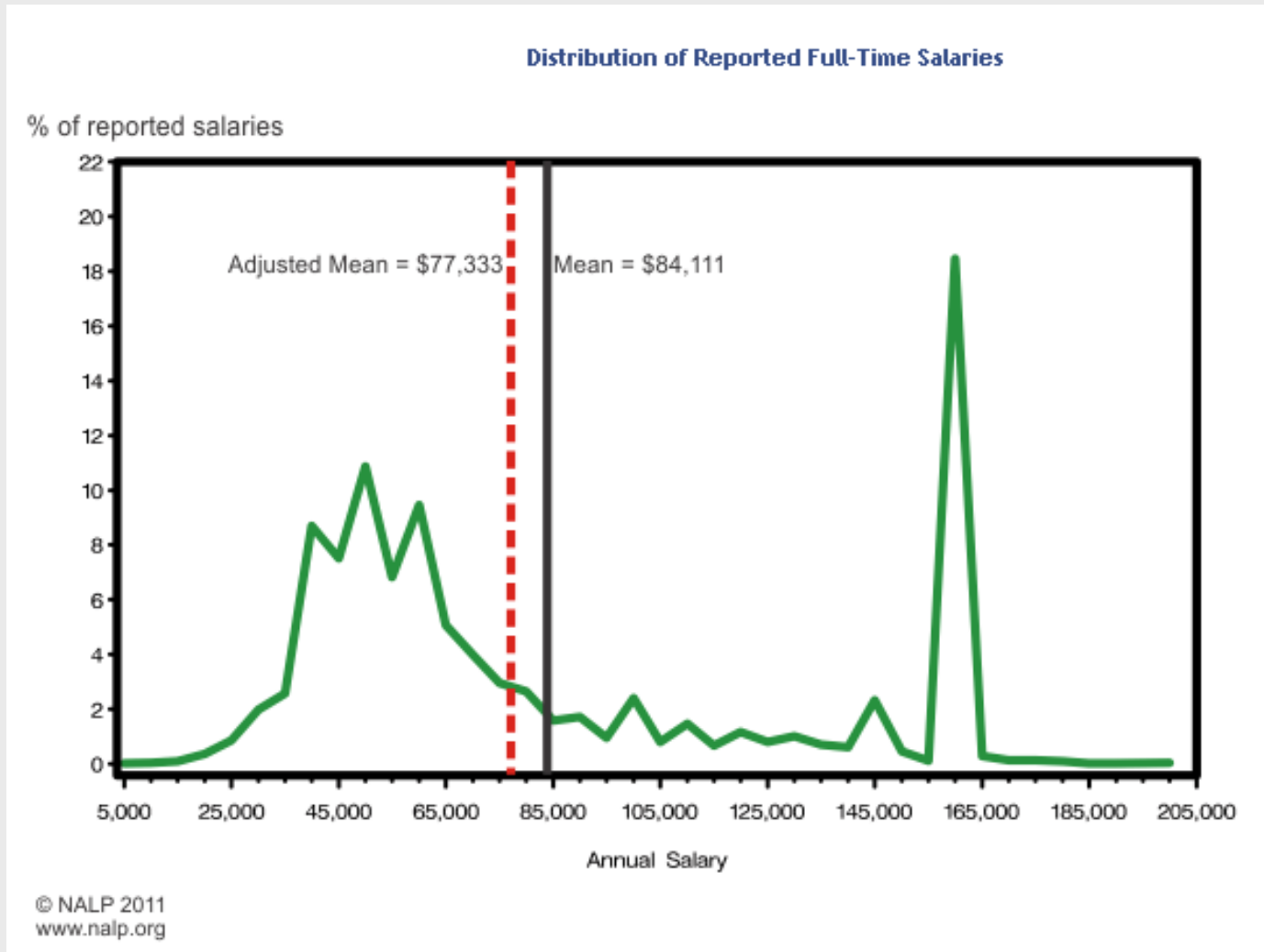
- Various discount rates result in very different results
- Median salary for 2008 (paper): 72'000
- Mean salary for 2011 (NALP): 84'111

Discount Rate	Also Ran	Solid Performer	Hot Prospect
12% premium (minimum salary)	18'205 (72'036)	21'864 (102'924)	25'200 (137'711)
17% premium (minimum salary)	27'578 (81'409)	33'121 (114'181)	38'174 (150'685)
22% premium (minimum salary)	37'441 (91'272)	44'967 (126'027)	51'827 (164'338)
27% premium (minimum salary)	47'465 (101'296)	57'005 (138'065)	65'702 (178'213)



Conclusion

Salary distribution for 1st-year lawyer salaries in America





Further thoughts

The importance of the interest/discount rate

A more “Swiss example” for hurdle rates

