



**Sam Houston State University
Department of Economics and International Business
Working Paper Series**

THE SIMPLE ECONOMICS OF THRESHOLDS: GRADES AS INCENTIVES

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SHSU Economics & Intl. Business Working Paper No. 09-01
January 2009

Abstract:

This paper examines how grade incentives affect student learning across a variety of courses at two universities, using for identification the discrete rewards offered by the standard A-F letter grade system. We develop five predictions about effort provision in the presence of the thresholds that separate these discrete rewards, only one of which has been previously tested in the economics literature generally. Surprisingly, all are rejected in our data. Either these grade incentives do not influence student effort appreciably on the margin, or the additional effort is ineffective.