**Assignment 2: A Course in Higher Education Management**

***List of questions***

Based on the above figures and the scenario, please, answer the following questions. Include references (not lengthy quotations) to sections of the textbook to support your argument where appropriate.

1. Classify the different cost items as either fixed or variable costs (matching row number to Fixed or Variable as appropriate) AND as capital or recurrent costs. Give a short explanation of the two distinctions.
   1. **Cost items under A are Fixed/ Recurrent**
   2. **Cost items under B are Fixed/ Capital**
   3. **Cost items under C are Fixed/Capital**
   4. **Cost items under D are Fixed/Capital**
   5. **Cost items under E are Variable/Recurrent**
2. Calculate the *Recurrent Fixed Costs* of course overheads (management and secretarial support). **$56,600.00**
3. Calculate the aggregate *Fixed Costs of Development* (FD) and the aggregate *Fixed Costs of Maintenance* (FM).

**FD=$132,500.00**

**FM= $11,250.00**

**F= $143,750.00**

1. Calculate the variable cost per student (V).

**V=$399.20**

1. Calculate the depreciation rate on a basis of the lifetime of the presentation of the project (compare Rumble Table 6.1) and charge it to each year of presentation. (You may use the format of the attached spreadsheet.)

**Depreciation rate FD: $16563**

**Depreciation rate FM: $2,813**

1. Following the template of Rumble Table 6.4, annualize the *Fixed Costs of Development* (FD) over the eight years of presentation at 6.2% interest and the *Fixed Costs of Maintenance* (FM) over four years at the same rate.

**Annualization Rate FD: $21,506**

**Annualization Rate FM: $3,262**

1. Summarize in a short paragraph the reasons for and against annualization in your own words.

**Once developed, the course can maintain its value if the number of students is maintained. Additionally, the institution can use the funds more strategically. For that reason, I would recommend annualization which considers the forgone interest. According to Rumble (1997), it is more beneficial to estimate an average of the combination of depreciation and interest on the undepreciated portion.**

1. Calculate the equation of *total costs* (TC=F+VxN) using the annualized figure of fixed costs and the total number of students expected over the lifetime of the course.

TC(N)= $634638+$399.20\*N

N=1440

**TC(1440)= $634638+399.20= $1,209,486**

9. Draw the respective graph of the total cost function. **See attached spreadsheet**

10. Calculate the equation of *average costs* (AC=F/N+V) using the annualized figure for fixed costs and the total number of students expected over the lifetime of the course.

AC(N)= ($634638/N)+399.20

For N=1440

**AC(1440)= ($634638/1440)+399.20=$839.92**

11. Draw the respective graph of the average cost function. **See attached spreadsheet**

12. If the student is charged the per student fee specified calculate the *break-even point*. (Use the equation TC=F+VxN and the income equation: I=SFxN (Income =Student Fee x No of students). The break-even point is N=F/(SF-V)

**BP=634638/($1140.00-$399.20)=857**

13. Represent the break-even point graphically (overlaying the graphs of TC and I). **See attached spreadsheet**

14. Summarize in a short paragraph why it is believed that the TC and AC equations and the specific cost structure of DE suggests that DE may be more cost-efficient than conventional modes of educational provision.

**The major reason DE may be more cost-efficient is because DE has lower variable costs than traditional education. Additionally, the costs and effectiveness of DE may be considered better than traditional when factors such as technology, enrollment and method of course delivery are considered. These factors are generally more flexible and can meet the needs of a larger population. Rumble (1997), argues that cost effectiveness is dependent upon outputs that are relevant and cost lower. These two factors adequately describe the current state of DE.**

Reference:

Rumble, G. (1997). *The costs and economics of open and distance learning*. London: Kogan Page

**Note that you need to attach an Excel file to show your calculation. You find an Excel file attached which you may use as template. Make sure that your calculations are reflected in the Excel sheet. *However you need to summarize your answers to the 13 questions in a separate text file.***