

## **Reply to the anonymous referee's comment**

### **Paper titled "Labour market returns to higher education in Vietnam"**

1. We had tried with earlier round of the survey (VLHSS<sup>1</sup> 1998) but the data did not support. Given the fact that sample size of VHLSS1998 is 4,800 households, a bit more than half of VHLSS2008 sample size and the ratio of wage-earners in VHLSS1998 survey is only one third of that in VHLSS2008 (see Doan & Gibson, 2010 for discussion on the difference in the probability of being wage-earners over the economic transition in Vietnam), hence the reduced sample of individuals who have either 4-year university degrees or high school diplomas and earned from wage and salary is too small to run IV regression. Further, the IV model used in the current paper needs more information such as mother's education, father's education, household assets, ratio of university and higher educated members within family; this generates more missing observations and makes it impossible to apply the IV method with VHLSS 1998. Moreover, even using the previous papers' findings (Doan and Gibson, 2009 & 2010) as a benchmark to compare the return over time may be inappropriate as the papers utilized different methods as the referee's comment, these papers indicate a highly significant and very clear trend of increasing return to education in Vietnam during the economic transition. As a result, the benchmark does provide confidence to draw a conclusion on the improved return to higher education in Vietnam over the last 20 years of the economic transition.
2. The key discussion on IV usage is often placed on the validity and strength or relevance of instruments. We discussed quite well in the paper, however, the paper suggested by the referee is a good reference for supporting arguments on the use of family background information as instruments. We provided more detailed discussion on this issue in the revised version of the paper.
3. Significant editing has been done, but any comment and suggestion are more than welcome.

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<sup>1</sup> Vietnam Household Living Standards Survey, received technical and financial supports from the WB and ADB, was conducted by Vietnam General Statistic Office.