There is a vast literature that attempts to explain the relationship between college enrollment and family income. Two points of view are used to explain this phenomenon. The first argues that the observed gap is a consequence of a long run differences in educational investment, in which higher-income parents give their children habits, preferences for education, better quality schools, etc., that increase their readiness for college (see Carneiro and Heckman, (2002), Cameron and Taber (2004), Nielsen, Sorensen and Taber (2010)). The second argues there are credit-constraints that affect students from poor families, i.e. the lack of access to credit markets prevent students from poor families from enrolling in higher education, because they cannot afford tuition cost and living expenses (see McPherson and Schapiro (1991), Kane (1996), Card (1999, 2001), Dynarski (2003), Belley and Lochner (2007)).

Measuring the effects of credit constraints on college enrollment is a difficult task mainly because the influence of several unobserved variables: Credit constrained status is unobserved in the first place and enrollment is determined by several factors such as preferences, expectations, student's ability, etc. which are unobserved as well. Most of the previous literature has relied on indirect methods that present at least one of the following limitations: 1) they fail to identify the credit constrained subpopulation, since there is not data available on credit constraints and financial aid is used as a proxy and; 2) they do not control for all unobservable characteristics that may explain college enrollment, which introduce biases to the estimation of the causal effect of credit constraints on college enrollment.

This paper consider two financial programs in Chile that give loans to students that score more than a given cut-off in the national college admission test (PSU), which enable the use of regression discontinuity design, i.e. students scoring just above the cut-off are eligible for loans while similar students, scoring just below, are not.

This work contributes to the literature in three ways. First, this natural experiment produces variation in credit constraints for college enrollment giving loans (not aid) to students in a market context, and therefore it measure the effects of credit constraints on college enrolment directly. Second, the two financing program in Chile use the same cut-off in the college admission test to determine college loans eligibility, therefore they assign credit constraints as good as randomly around the cut-off, which deal with the omitted variables and selection biases. Finally, this paper uses a much richer, unexplored, individual level data set that 1) relies on an admission process that depends exclusively on observed students' characteristics, avoiding potential biases from admission processes that weight subjective characteristics; 2) gives full information on enrollment decisions and loan assignment for all individuals and all higher education programs in the country; and 3) the financial programs offers a standard loan to eligible students who decide whether to accepted it, reducing the potential endogeneity of loan offers made to attract better students.
Assessing the importance of credit constraints is relevant from an educational policy perspective. Studies concluding there are no credit constraints suggest it is not necessary to implement programs that alleviate the financial burden for lower income students. If the effects of credit constraints are not measurable due to the lack of reliable data and credible research designs, then the absence of policies would affect the performance of lower income students and their social mobility, and the effects would be transmitted to future generations.