Human capital
Concept of human capital

• Very much discussed in the field of labor economics b’cos it is associated with the job.

• In the field of labor economics, skills are marketable capital and invested by employees.

• HC is often equated with stocks of knowledge or characteristics owned by employees (whether its natural or acquired characteristics) that contribute to productivity.

• Human capital is not only referred the school year, but also extends to a variety of other features such as quality of schools, training, attitudes toward work, and so on.

• Human capital owned is different from one person to another.
## Concept of Human Capital

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Description</th>
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<tbody>
<tr>
<td>Becker</td>
<td>HC increases productivity of an employee at work, irrespective of the type of tasks, organization and situation. Can also be thought of as a stock of knowledge or skills that directly affect productivity.</td>
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<tr>
<td>Howard Gardener</td>
<td>a multi-dimensional talent and skill types. Mental capabilities are different from physical ability.</td>
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<td>Schultz and Nelson-Phelps</td>
<td>talent is the ability to adapt. HC is useful when dealing with changing situations, where workers have to adapt.</td>
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<td>Bowles - Gintis</td>
<td>talent is the ability to work in an organization, follow instructions, adjusting to life in accordance with the hierarchy of society. The main role of the school is to inculcate the right ideology in the lives of individuals.</td>
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<tr>
<td>Spence</td>
<td>Visible HC is just a &quot;signal&quot; for ability rather than an independent feature to determine productivity.</td>
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## Factors Determine Human Capital

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<td>1.</td>
<td>Different natural ability - There are several components of IQ obtained through genetics. HC may be different even if the individual has the same access to investment opportunities and economic constraints.</td>
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<td>2.</td>
<td>Schooling - the most easily observed component of HC.</td>
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<td>3.</td>
<td>Quality of schooling - very important in understanding the structure of wages and salaries.</td>
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<td>4.</td>
<td>Training received by a person. Training is a component of HC available after school. Training is often associated with some useful skills to a particular industry, or specific technology.</td>
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<td>5.</td>
<td>Influence before entering the labor market - peer influence affect an individual’s HC significantly.</td>
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Education as human capital

- Education as economic goods and not easily available.
- Economists assume that education as consumer goods and capital goods because it offers utility to the user and also the input to the production of other goods and services.
- As capital, education can be used to develop the human resources necessary for economic and social transformation.
- Through education, a better citizen can be developed and thus help improve the standard of living. Therefore, positive social change can be attributed to production.
- Economic prosperity of a country depends on the function of physical capital and human capital.
Education as human capital

- Human capital theory based on the assumption that formal education is very important and necessary to improve the productive capacity of the population.
- An educated population is a productive population.
- HC theory emphasizes how education increases productivity and efficiency of employees by increasing their level of cognitive ability.
- Most developing countries recognize that the primary mechanism for developing human knowledge is through the education system. They invest large sums of money on education not only to increase the knowledge and skills to individuals but also to instill values, ideas, attitudes and aspirations for the interest of development.
Example of Human Capital

- Formal education
- On the job training
- Job search
- Migration
- Health
Relationship between schooling & income

Schooling

• literature
• Mathematical skills
• Analysis skills
• Attitudes
• Values
• behavior

Cognitive & non-cognitive abilities

Productivity

Income
Educated Individuals/workers

• Work longer hours a year and spend time in the in-service training compared with the less educated.
• Are more aware of the training programs and increase their participation than those with less education.
Relationship between HC and poverty

• children's education as the best way to escape from poverty.
• failure of individuals to invest in certain personal qualities (higher education) causes of poverty in later life
• education after high school is an important factor related to poverty, particularly among women and minorities.
• for individuals who have less education than the post-secondary level, the combined effect of training participation and health status significantly less likely to be poor.