

- Human Capital Formation
- Education and Human Capital Formation
- Human Capital and Economic Growth

Human Capital Formation

Concept Explanation: Human Capital Formation refers to the process of acquiring and increasing the number of persons who have the skill, education, and experience which are critical for the economic and political development of a country.

Key Definitions / Features:

- **Human Capital:** The knowledge, skills, and abilities possessed by individuals that contribute to economic productivity.
- **Physical Capital:** Tangible assets like machinery and buildings used in production.
- **Difference:** In physical capital, investment decisions are made rationally by entrepreneurs calculating expected returns. In human capital, investment decisions are influenced by peers, educators, and society.

Role of Human Capital Formation in Economic Development:

- Optimum utilisation of resources
- Helpful in production of national wealth
- Co-ordination among various economic activities
- Speeds up the rate of economic growth
- Changes in the outlook of the labour force

Sources of Human Capital Formation:

- Investment on health and nutrition
- Investment on education and training
- Housing development
- Migration
- Expenditure on information

Health: The condition of physical, mental, and social well-being of a person.

Nutrition: The combination of all nutrients required for a proper diet.

Human Development Index (HDI): A composite index measuring average achievement in longevity, knowledge, and access to resources.

Migration: The movement of workforce from one place to another.

How People Become Resource: People become resources through their abilities, knowledge, and skills. They add value to natural resources and know how to use them effectively, making them special resources.

Practice Set

- **Level 1 – Easy:** Define human capital formation and list its sources.
- **Level 2 – Moderate:** Explain the role of human capital formation in economic development with examples.
- **Level 3 – Challenging:** Discuss the difference between human capital and physical capital formation and its implications for investment decisions.

Answer Key

- **Level 1:** Human capital formation is the process of increasing the number of skilled and educated persons. Sources include investment in health, education, housing, migration, and information.
- **Level 2:** Human capital formation helps in optimum resource utilisation, production of national wealth, coordination, speeding economic growth, and changing labour outlook. For example, educated workers improve productivity.
- **Level 3:** Physical capital investment decisions are made rationally by entrepreneurs calculating returns, whereas human capital investment is influenced by social factors. This affects how resources are allocated in the economy.

Quick Reference

- Human Capital Formation = Skill + Education + Experience
- Role: Resource utilisation, wealth creation, growth acceleration
- Sources: Health, education, housing, migration, information

Glossary

- **Human Capital:** Skills and knowledge of people.
- **Physical Capital:** Tangible assets used in production.
- **Migration:** Movement of workforce.
- **Nutrition:** Nutrient intake for health.
- **HDI:** Human Development Index measuring well-being.

Education and Human Capital Formation

Concept Explanation: Education is a vital element of human resource development. It refers to the process of teaching, training, and learning, especially in schools or colleges, to improve knowledge and develop skills.

Development of Education in India:

- **Elementary Education:**
 - Sarva Shiksha Abhiyan (SSA)
 - Mid-day Meals Plan
 - Kasturba Gandhi Balika Vidyalaya Scheme
- **Secondary Education:**
 - Navodaya Vidyalaya
 - Kendriya Vidyalaya
 - National Council of Educational Research and Training (NCERT)
 - Vocationalisation of Secondary Education
- **University and Higher Education:**
 - Indira Gandhi National Open University (IGNOU)
 - Academic Staff College
- Technical, Medical, and Agriculture Education
- Rural Education
- Adult and Continuing Education

Defects of Education System:

- Widespread illiteracy
- Low rural access level
- Low enrolment ratio
- Dropouts
- Privatisation
- Unbalanced development
- Disparities in educational development
- Defective examination system

Measures to Reform Educational System:

- Extension of primary education
- Control over higher education
- Encouragement to female education
- Improvements in education system
- Employment-oriented education
- Increase in government expenditure on education
- Control over political interference

Practice Set

- **Level 1 – Easy:** Name any two government schemes for elementary education in India.
- **Level 2 – Moderate:** Explain the defects of the Indian education system.
- **Level 3 – Challenging:** Suggest measures to reform the education system to improve human capital formation.

Answer Key

- **Level 1:** Sarva Shiksha Abhiyan (SSA) and Mid-day Meals Plan.
- **Level 2:** Defects include widespread illiteracy, low rural access, low enrolment, dropouts, privatisation, unbalanced development, disparities, and defective examination system.
- **Level 3:** Measures include extending primary education, controlling higher education, encouraging female education, employment-oriented education, increasing government expenditure, and controlling political interference.

Quick Reference

- Education improves knowledge and skills.
- Government schemes support elementary to higher education.
- Reforms needed to address illiteracy and disparities.

Glossary

- **Sarva Shiksha Abhiyan (SSA):** Government program for universal elementary education.
- **Navodaya Vidyalaya:** Residential schools for talented rural children.
- **Kendriya Vidyalaya:** Central government schools for children of transferable employees.
- **Vocationalisation:** Inclusion of vocational subjects in education.

Human Capital and Economic Growth

Concept Explanation: Economic growth means the increase in real national income of a country. A higher rate of economic growth is possible only through human capital.

There are two main sources of human capital:

- Education
- Health

These two sources play an important role in economic growth by improving the productivity and efficiency of the workforce.

Human Capital and Human Development: While human capital focuses on increasing knowledge, skills, and capacities, human development considers education and health as integral to human well-being. Human development views human beings as ends themselves, not just means to economic growth.

Practice Set

- **Level 1 – Easy:** Define economic growth and state its relation to human capital.
- **Level 2 – Moderate:** Explain the role of education and health in economic growth.
- **Level 3 – Challenging:** Differentiate between human capital and human development with examples.

Answer Key

- **Level 1:** Economic growth is the increase in real national income. It depends on human capital as skilled and healthy people increase productivity.
- **Level 2:** Education improves skills and knowledge; health ensures a productive workforce. Both enhance economic growth.

- **Level 3:** Human capital increases skills and capacities for economic purposes; human development focuses on overall well-being including education and health as ends in themselves.

Quick Reference

- Economic Growth = Increase in Real National Income
- Human Capital Sources: Education and Health
- Human Development = Well-being + Education + Health

Glossary

- **Economic Growth:** Increase in real national income.
- **Human Development:** Process of improving well-being of people.
- **Real National Income:** National income adjusted for inflation.