

## CLASS- 12<sup>TH</sup>, ECONOMICS NOTES

### Chapter-5 Human Capital Formation in India (Indian Economic Development)

DATE:-02.08.21

**Human Capital:** It refers to the stock of skill, ability, expertise, education and knowledge embodied in the people of a country at a point of time.

**Human Capital Formation:** Human capital formation is the process of adding to the stock of human Capital over a period of time. It refers to development of abilities, skills, education and experience among The population of the county. It is the process of acquiring and increasing the number of persons who have the skill, Education and experience which are essential for the economic and political development of a country.

#### **Sources of Human Capital Formation:**

##### 1. Expenditure on Education:

- Labour skill of an educated person is more than that of an uneducated person, which enables him to generate more income than the uneducated person and hence contributes more to the economic growth.
- Spending on education by individuals is similar to spending on capital goods by companies with the Objective of increasing future profits over a period of time. It increases productivity and efficiency of Labour. Thus, individuals invest in education with the objective of increasing their future income.
- Education is sought not only as it confers higher earning capacity on people but also for its other.

#### Highly valued benefits:

- a) It gives one a better social standing and pride.
- b) It enables one to make better choices in life.
- c) It provides knowledge to understand the changes taking place in society.
- d) It also stimulates innovations.
- e) It facilitates adaptation of new technologies.

Thus, expanding educational opportunities in a nation accelerates the development process.

##### 2. Expenditure on Health:

- It is an important source of human capital formation as it directly increases the supply of healthy Labour force.
- A sick labourer without access to medical facilities is compelled to abstain from work and there is loss Of productivity.

#### The various forms of health expenditure are:

- a) Preventive medicine (such as vaccination);
- b) Curative medicine (medical intervention during illness);

- c) Social medicine (like spread of health literacy);
- d) Provision of clean drinking water and
- e) Good sanitation facilities.

3. Expenditure on giving On-the-Job-Training:

- Firms spend on giving on-the-job-training to their workers. This may take different forms:
  - The workers may be trained in the firm itself under the supervision of skilled worker;
  - The workers may be sent for off-campus training.

In both these cases firm incur some expenses.

- Firms will thus, insist that workers should work for a specific period of time, after their on-the-job Training, during which it can recover the benefits of the enhanced productivity owing to the training.
- It is a source of human capital formation as the returns of such expenditure in the form of enhanced Labour productivity is more than the cost of it.

4. Expenditure on Migration:

- People migrate in search of jobs that fetch them higher salaries than what they may get in their native Places.
- Unemployment is a reason for rural-urban migration in India.
- Technically qualified persons, like doctors, engineers etc. migrate to other countries because of higher Salaries that they may get there.
- Migration in both these cases involves cost of transport, higher cost of living in the migrated places and Psychic costs of living in a strange socio-cultural setup.
- The enhanced earnings in the new place outweigh the cost of migration; hence, expenditure on Migration is also a source of human capital formation.

5. Expenditure on Information:

- People spend to acquire information relating to labour market & other markets like education and Health. For e.g. people want to know the level of salaries associated with various types of jobs, whether Educational institutions provide the right type of employable skills and at what cost.
- This information is necessary to make decisions regarding the investment in human capital as Well as for efficient utilisation of the acquired human capital stock.
- Thus, expenditure incurred for acquiring information relating to labour market and other markets is Also a source of human capital formation.