



# CLASS – 11

## ECONOMICS

### Indian Economy Development

#### CH-4 : Human Capital Formation In India

Part – 2  
Sources of Human Capital  
Formation

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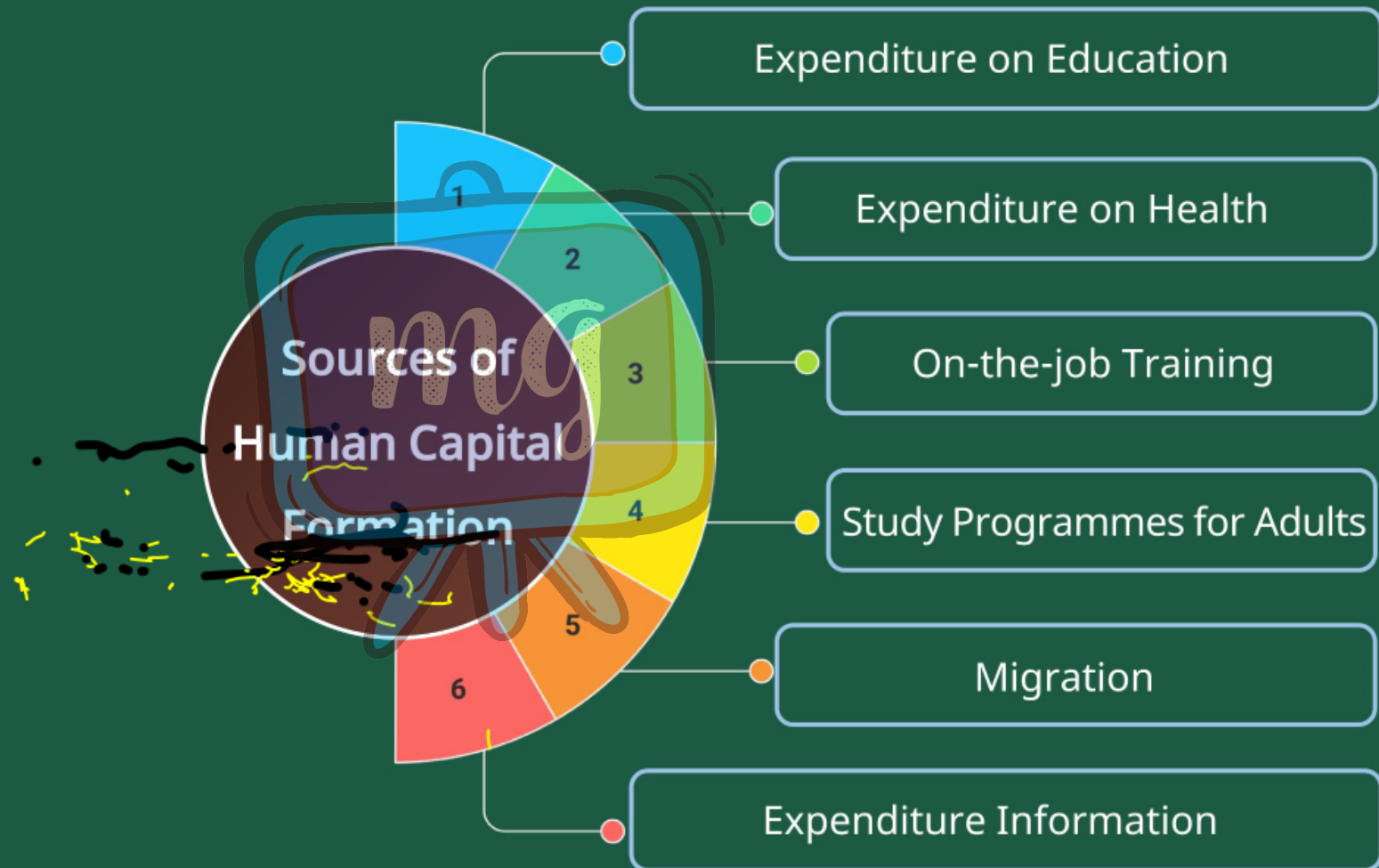
# OVERVIEW

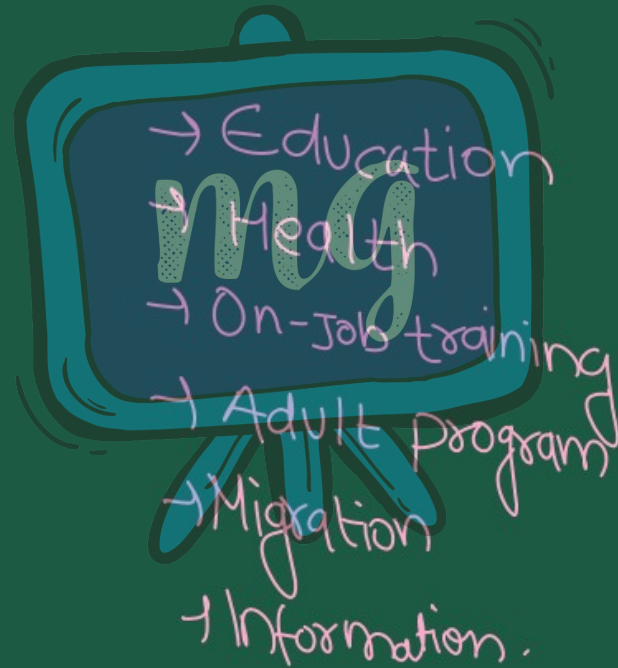
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1. Introduction to Human Capital
  2. Sources of Human Capital Formation
  3. Roles of Human Capital Formation
  4. Problems in Human Capital Formation
  5. Education Sector in India

# HUMAN CAPITAL FORMATION

- It is the process of acquiring and increasing the number of persons, who have the skills, education and experience.
- It is associated with an investment in man and his development as creative and productive resources.

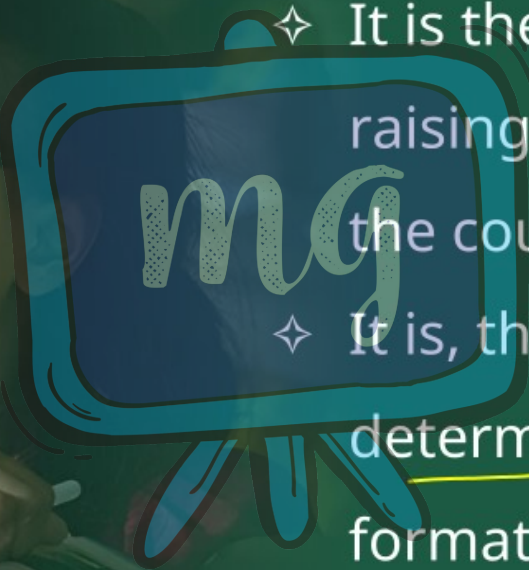






## 1. Expenditure on Education

- ✦ It is the most effective way of raising a productive workforce in the country.
- ✦ It is, therefore, a very important determinant of human capital formation.



✧ Education enables an individual to make a good living throughout his life.

✧ His total earnings during his life span would far exceed his initial expenditure on education.

✧ Investment in education is considered as one of the main sources of human capital.







✦ 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.

✦ Likewise, individuals invest in education with the objective of increasing their future income.



✧ The difference between benefit and cost is an approximate market value of human capital formation.



## 2. Expenditure on Health

✧ "A sound mind in a sound body" is an old saying. Expenditure on health makes a man more efficient and productive.

✧ His contribution to the production process tends to rise.

✧ He adds more to the GDP of the nation than a sick person.





✧ Who can work better — a sick person or a healthy person?

✧ A sick labourer without access to medical facilities abstains from work and loses productivity.

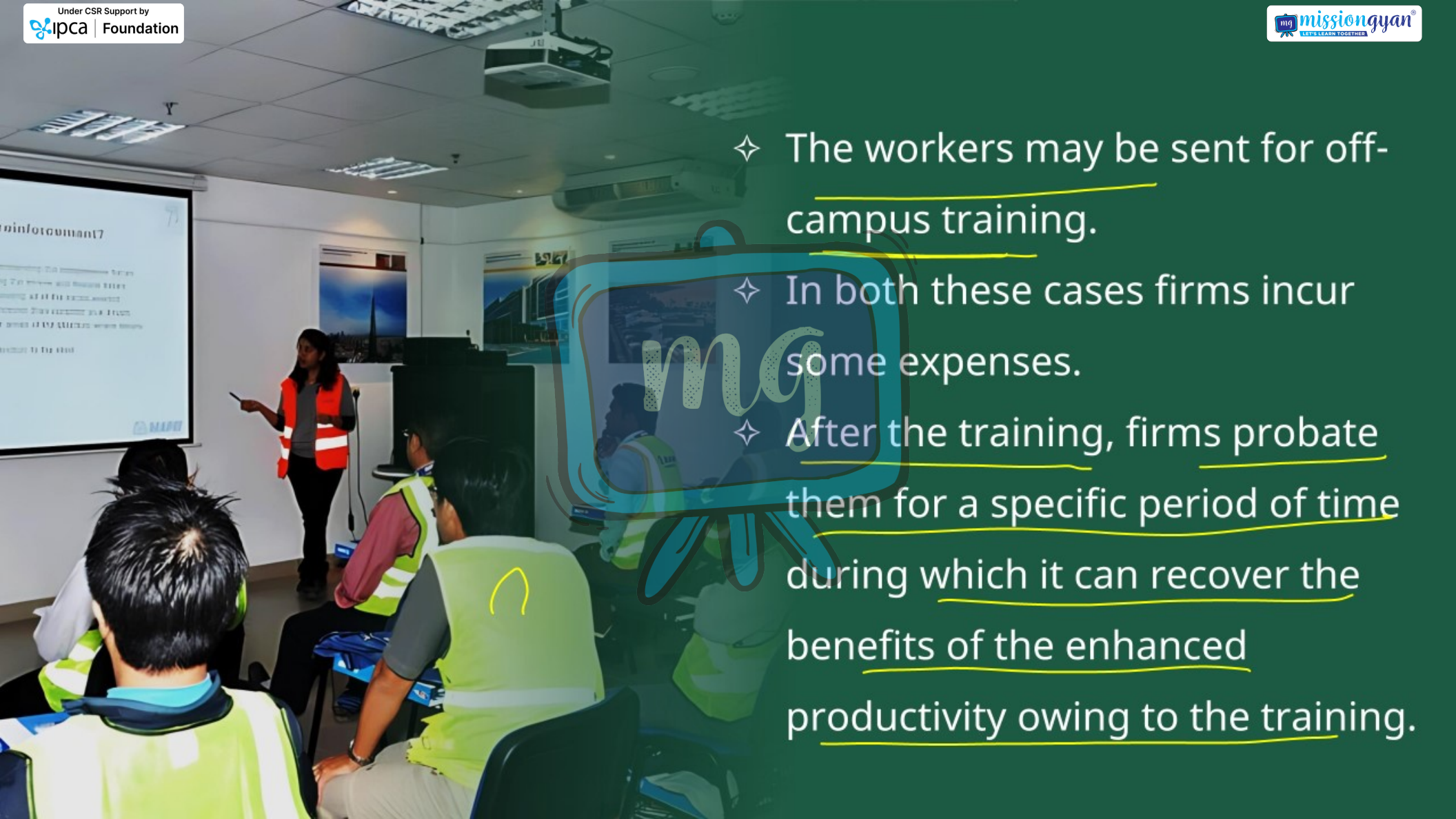
✧ Health expenditure directly increases the supply of healthy labour force and is, thus, a source of human capital formation.

### 3. On-the-Job Training



- ✦ On-the-job training helps workers to sharpen their specialized skills.
- ✦ It enables them to raise the level of their efficiency/productivity.
- ✦ The workers may be trained in the firm itself under the supervision of a skilled worker;





✧ The workers may be sent for off-campus training.

✧ In both these cases firms incur some expenses.

✧ After the training, firms probate them for a specific period of time during which it can recover the benefits of the enhanced productivity owing to the training.

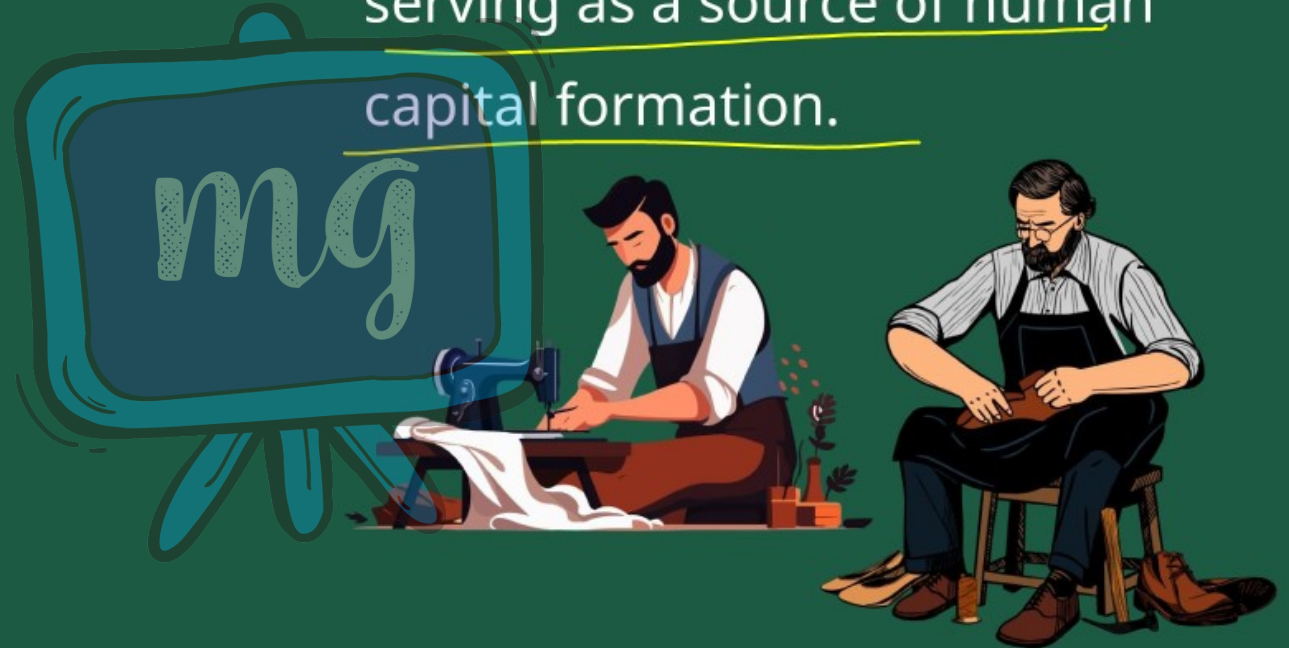
## 4. Study Programmes for Adults

✦ Other than formal education at the primary, secondary, and university levels, the Government and NGOs organise study programmes for adults to make them proficient in their work areas.





✧ This enhances their productivity,  
serving as a source of human  
capital formation.



## 5. Migration

- ✦ Migration contributes to human capital formation as it facilitates utilisation of (otherwise) inactive skills of the people, or it facilitates fuller/better utilisation of the skills.





✧ People migrate in search of jobs that fetch them higher salaries than what they may get in their native places.

✧ 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 sociocultural setup.



- ✧ The enhanced earnings in the new place outweigh the costs of migration.





## 6. Expenditure on Information




✦ Information relating to job markets and educational Institutions offering specialised skills is an Important determinant of skill formation.

✦ It enables people to actualise their productive potential.

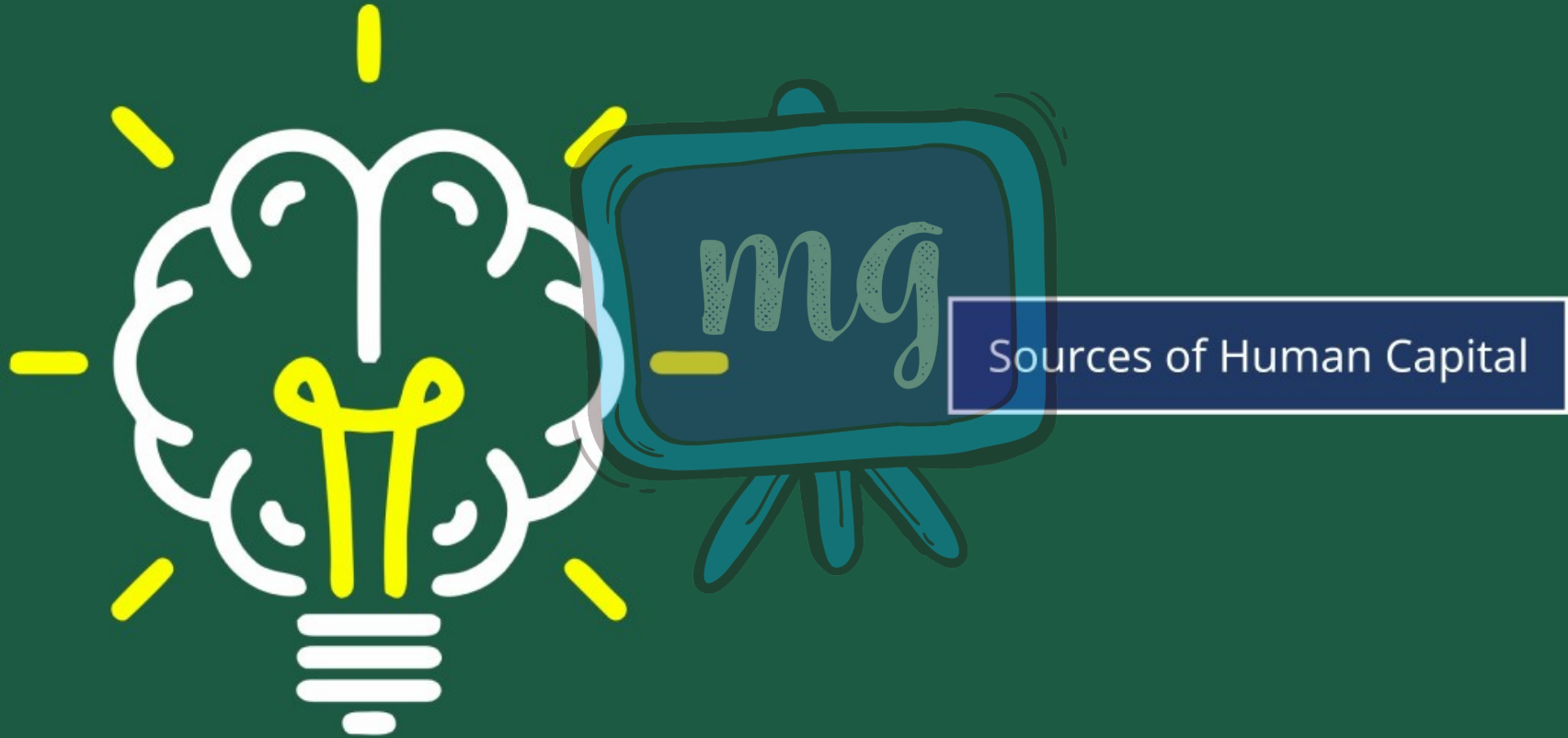
## EXAMPLE :

- ✦ People want to know the level of salaries associated with various types of jobs, whether the educational institutions provide the right type of employable skills and at what cost.



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- ✧ This information is necessary to make decisions regarding investments in human capital as well as for efficient utilisation of the acquired human capital stock.
  - ✧ Expenditure incurred for acquiring information relating to the labour market and other markets is also a source of human capital formation.

# LEARNING OUTCOME





# ASSESSMENT

1

Which of the following is not a source of Human Capital Formation?



Expenditure on Education and Health



On job trainings



Production process of a firm



Migration

# ASSESSMENT

2

Which source signifies knowledge relating to the labour market and other markets as human capital formation ?

☒ A

Information

☐ B

Study abroad program

☐ C

Health

☐ D

Education