

# HUMAN CAPITAL FORMATION IN INDIA

## Multiple Choice Type Questions

1. Which of the following is not a merit of human capital formation?
  - a. Improves technical knowledge
  - b. Enlarges the size of business
  - c. Increases cost of production
  - d. Changes social outlooks
2. Which of the following is not an indicator of education level?
  - a. Years of schooling
  - b. Life expectancy
  - c. Teacher-pupil ratio
  - d. Enrollment rate
3. Which of the following institutes comes under the health sector?
  - a. NCERT
  - b. UGC
  - c. AICTE
  - d. ICMR
4. Which level of education takes a major share of total education expenditure in India?
  - a. Elementary
  - b. Secondary
  - c. Higher
  - d. Tertiary
5. What was the share of education in total government expenditure in 2014?
  - a. 7.92 percent
  - b. 15.7 percent
  - c. 0.64 percent
  - d. 3.31 percent

## Answer

1. (c)                      2. (b)                      3. (d)                      4. (a)                      5. (b)

## SHORT ANSWER QUESTIONS

1. What initiatives have been taken by the government to provide equal access of education to all?  
**Answer:** The following initiatives have been taken by the government to provide equal access of education. The Government of India enacted the 'Right to Education Act' in 2009 to make free education a fundamental right of all children in the age group of 6-14 years.

Government of India has started levying a 2 per cent 'education cess' on all Union taxes. The revenue earned from education cess is spent on elementary education. The government sanctions a large outlay for the promotion of higher education and new loan ; schemes for students to pursue higher education.

2. State the problems of human capital formation in India.

**Answer:** The problems of human capital formation are:

- (i) High cost of human capital formation
- (ii) Low levels of adult and agricultural education
- (iii) Less priority to secondary education
- (iv) Limited stock of human capital formation

3. Why is it important to promote education for women in India?

**Answer:** It is important to promote education for women in India due to the following reasons:

- (i) It helps in improving women's economic independence and their social status.
- (ii) Women education has a favourable impact on fertility rate and women and child health care.
- (iii) Educated woman can provide better guidance to her children.

4. Higher income leads to high level of human capital." Comment

**Answer:**

Higher income leads to development of high level of human capital and vice versa. In other words, high level of human capital leads to growth of income. It is believed that even a large population, which is trained and educated, can become an asset in accelerating economic growth and ensuring social change in desired directions.

However, it is difficult to establish a relation of cause and effect from the growth of human capital to economic growth as the rate of growth human capital in developing countries has been faster than the rate of growth of per capita real income.

5. Discuss India's potential as a knowledge economy.

**Answer:** India has the potential to become a leading knowledge-based economy. With its youth population and growing information and communication technology (ICT) industry, India can become a major global knowledge-based economy. However, there is a need for measures such as:

- Supportive laws
- Improved infrastructure
- Removal of barriers to trade and investment
- Up-skilling of labour force
- Higher spending in research and development
- Innovative financing for small businesses and enterprises

A shift to knowledge-based growth would help developing country like India avoid the middle-income trap and also address the issue of rising income inequalities.

6. Discuss the need for human capital.

**Answer:** The population of the nation takes charge of all economic activities such as production, distribution and consumption. Human capital, therefore, may be recognized as one of the production factors, which can generate additional values. An economy needs sufficient human capital in the form of educated, trained and competent people to function and accomplish its goals. As we move deeper into a knowledge-based economy that depends on information, knowledge and high-level skills, human capital becomes increasingly important.

## LONG ANSWER QUESTION

1. Differentiate between human capital and physical capital.

**Answer:** Following are the points of difference between human capital and physical capital:

### Physical Capital

1. Physical capital formation is an economic and technical process.
2. Physical capital is separable from its owner.
3. The owner of a physical capital need not be present at the place where it is being used.
4. Physical capital is tangible and can be easily sold in the market
5. Physical capital is completely mobile between countries except in case of some artificial trade restrictions.
6. Continuous use of machines leads to wear and tear and depreciation. Moreover , change of technology makes a machine obsolete .
7. Benefits of physical capital flow only to those who pay the price for the product and services produced by it. That is , physical capital creates only private benefit.

### Human capital

1. Human capital formation is partly a social process and partly a conscious decision of the possessor of the human capital.
2. Human capital is inseparable from its owner
3. The owner of human capital needs to be present at the place of use.
4. Human capital is intangible. it is built in the body and mind of the owner.
5. Human capital is not perfectly mobile between countries as movement is restricted by nationality and culture.
6. Depreciation also takes place in case of human capital in the form of ageing. However, it can be reduced through continuous investment in health and education.
7. Human capital creates external benefit. That is , it benefits not only the owner but also the society in general.

1. Explain the various sources of human capital.

### **Answer:**

Following are the sources of human capital:

(i) **Education:** Investment in education is considered as one of the source of human capital. Without education, human beings have only brutal manpower, in the form of physical labour. Investment in education gives human beings additional skills to do the same job.

It converts human beings into human capital, which enhances the labour productivity. This investment in education will ultimately increase the income of human beings in future.

(ii) **Health:** Health is another significant source of human capital. The health of a person affects human capital. A sick person, without access to medical facilities, is compelled to abstain from work and there is a loss of productivity. Expenditure on health directly increases the supply of healthy labour force and hence, a source of human capital formation. The various forms of health expenditure are:

- Preventive medicine such as vaccination
- Curative medicine such as interventions during illness
- Social medicine such as spread of health literacy
- Provision of clean drinking water
- Good sanitation

(iii) **On-the-job Training:** Firms incur expenditure on providing on-the-job training to their workers. Training imparts technical skills and know-how among the workers while working at the actual work site. On-the-job training helps in enhancing the productivity of the workers and facilitates better utilisation of raw materials. It enables workers to absorb values and standards of an organization. The workers may be trained by either of the following two methods:

- Training within the firm under the supervision of a skilled worker
- Off-campus training

(iv) **Migration:** People migrate in search of jobs that fetch them higher salaries than what they may get in their native places. For instance, engineers and doctors migrate to other countries for higher salaries that they may get in such countries.

Migration involves transportation cost, higher cost of living in the migrated place and psychic cost of living in an unknown socio-culture setup. However, the increased earnings at the new place outweigh the cost of migration. Hence, expenditure on migration is also a source of human capital formation.

(v) **Labour Market Information:** People need to incur expenditure in order to acquire information related to equity markets, labour markets, education, health and other related markets. For instance, expenditure is incurred while collecting information related to education such as form fees, transportation cost, consultancy fee, etc.

Information plays an important role in making decisions regarding investments in human capital. Moreover, expense is incurred for efficient utilisation of the acquired stock of human capital. The money spent on obtaining information related to any kind of markets is a source of human capital formation.

2. Explain the role of human capital formation in economic development.

**Answer:**

The role of human capital formation in economic development is discussed below:

- (i) **Increase in the Efficiency of Labour:** Investment in human capital through education, health, training, etc. increases the efficiency of labour. This, in turn, helps in achieving the path of economic development.
- (ii) **Enlarged Size of Business:** The size of business can be enlarged by efficient entrepreneurs and innovators. An entrepreneur becomes efficient by investment in human capital and this efficiency ultimately leads to economic development.
- (iii) **Increase in Production:** Increase in the total output produced by a country leads to economic development. Human capital formation produces able and efficient persons who use their knowledge, skills and efficiency to increase the production.

(iv) **Change in Social Outlook:** Spread of education and health facilities enhances social outlook and develops understanding to accept the changes taking place in society. These positive changes also contribute significantly towards economic development.

(v) **Reduced Production Cost:** Reduction in the production cost is essential for the economic development. Human capital formation helps to decrease the production cost.

3. Briefly describe the two reports that point out the fact that further human capital formation in India will move its economy to a higher growth trajectory.

**Answer:**

Two independent reports on the Indian economy have identified that India would grow faster due to its strength in human capital formation.

(i) **According to a report** – ‘Global Growth Centres’- published by Deutsche Bank, India will emerge as one among four major growth centres in the world by the year 2020. The report supports the view that increase in human capital is crucial to achieving increases in GDP and hence, it states that between 2005 and 2020 we expect a 40 per cent rise in the average years of education in India.

(ii) **World Bank’s report**, ‘India and the Knowledge Economy Leveraging Strengths and Opportunities’, states that India should make a transition to the knowledge economy.

According to the report, Indian economy has all the key ingredients required for making this transition such as, a critical mass of skilled workers, a well-functioning democracy and a diversified science and technology infrastructure. Moreover, it is expected that the per capita income of India will increase from approximately US \$ 1000 in 2002 to US \$ 3000 in 2020 if it uses its knowledge as much as Ireland does.

4. What are the objectives and functions of NCERT, UGC, AICTE and ICMR?

**Answer:** The objectives and functions of different organizations are as below:

(i) **National Council of Educational Research and Training (NCERT):** NCERT is an autonomous organization set up in 1961 by the Government of India to assist and advise the Central and State Governments on policies and programmes for qualitative improvement in school education.

(ii) **University Grants Commission (UGC):** The UGC, set up in 1953, has the unique distinction of ‘being the only grant-giving agency in the country, which has been vested with two responsibilities providing funds and coordinating, determining and maintaining standards in institutions of higher education.

(iii) **All India Council for Technical Education (AICTE):** AICTE was set-up in November 1945 as a national level apex advisory body to conduct survey on the facilities on technical education and to promote development in the country in a coordinated and integrated manner.

(iv) **Indian Council of Medical Research (ICMR):** The Indian Research Fund Association (IRFA), re-designated as ICMR in 1949 in New Delhi, is the apex body in India for the formulation, coordination and promotion of biomedical research. It is one of the oldest medical research bodies in the world.

5. Suggest measures to reduce problems of human capital formation.

**Answer:**

The following are the measures should be adopted to reduce the problems of human capital formation in India:

(i) **More Emphasis on Technical Education:** Technical education makes a person income earner soon. On the

other hand, college or university education is increasing the number of unemployed; therefore, more emphasis should be given on technical education to reduce the problem of human capital formation.

(ii) **Need for Government-run Programmes in Education and Health Sector:** For the removal of different problems of human capital formation, there is a need for the different forms of Government intervention in the education and health sector. In this regard, government has started many programmes in education sector such as Sarva Shiksha Abhiyart (SSA), Misdeal Scheme, Kasturba Gandhi Balika Vidyalaya (KGBV), Prarambhik Shiksha Kosh (PSK), etc. The main objective of these programmes is to make universal access to all. In the health sector government has also started many disease control programmes.

(iii) **Regulation of Fees Structure in Education and Health Care Institutions:** it is very essential for the government to regulate the fees structure in education and health care institutions, because the fee structures are very low in these institutions and the expenditure is very high, which is regarded as unproductive for the country.

As a result, government sector is making great losses; Government's income is falling short of its expenditure. For the development purpose to remove the problems of human capital, it is very essential to regulate the fees structure in these sectors. The fees structure of private sector in education and health care institutions is manifold more than the government sector. Therefore, it is necessary to regulate the fees structure in the government's education and health institutions.

(iv) **Change in Educational System:** For the success of human capital formation, basic changes and improvements in educational system are essential. Technical and secondary education should be compulsory and higher education should be provided to the able persons.

(v) **Compulsory Secondary Education:** For the success of human capital formation, secondary education should be compulsory to all, which will definitely help in increasing the productivity and efficiency.

(vi) **Proper Motivation:** For the success of human capital formation programmes, proper motivation is required. This will help the people to adopt modern techniques of production to conclude, for the development of any country, human capital formation is very important. Government of India is also investing a lot in the field of education and health for human capital formation.