



# CEE Growth & Development

Human Capital

Michælmas 2013

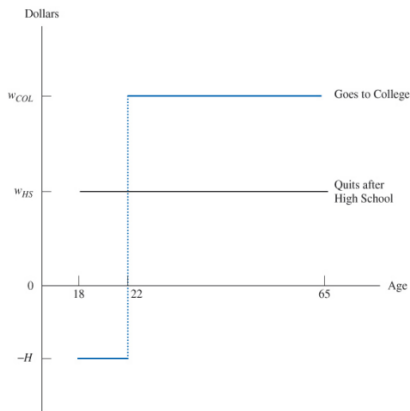
# Human Capital

## Definition

Human Capital is the qualities and abilities of individual that increases the productivity (especially, those abilities that were acquired through investment in education and training).

- Sources of HC
  - formal schooling
  - on-the-job training
  - experience
  - abilities the individuals are born with

# Human Capital: Schooling



▶ Future income compared to

▶ Cost of Education

▶ Opportunity cost

▶ Discounting the future!

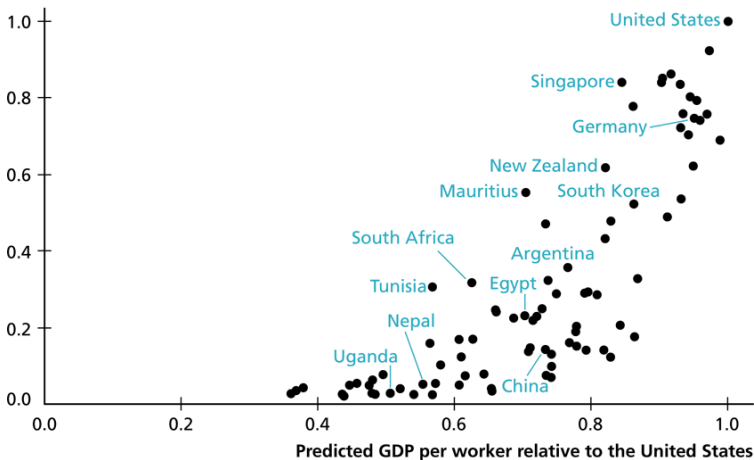
# Human Capital

$$Y = AK^\alpha (hL)^{1-\alpha}$$

$$\frac{y_i}{y_j} = \frac{h_i A^{\frac{1}{1-\alpha}} \left(\frac{s}{n+\delta}\right)^{\frac{\alpha}{1-\alpha}}}{h_j A^{\frac{1}{1-\alpha}} \left(\frac{s}{n+\delta}\right)^{\frac{\alpha}{1-\alpha}}} = \frac{h_i}{h_j}$$

# Human Capital: Schooling

Actual GDP per worker relative to the United States



# Human Capital: Problems

- Quality of schooling
- Externalities
  
- Unemployment (and emigration)
- Overeducation

# Human Capital: Overeducation

- short-run effect
  - loss in production
- medium-run effect
  - skill loss
- long-run effect
  - incentive loss for future generations

# Cobweb model: Business and Law vs Engineering

