

Economics of Education

Course No-S.C.3

Semester-4

Unit-4

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Economics of Education:

Objectives:

At the end of this e-content, students will be able to:

- Define economics of education;
- Differentiate between ordinary economics and economics of education;
- Identify the fundamental problem of economics of education; and
- Explain what an economist of education can do to solve the fundamental problem in the educational system.

What is Economics?

- Economics is a social science that studies how society chooses to allocate its scarce resources, which have alternative uses, to provide goods and services for present and future consumption.
- Economics as a social science subject concerns itself with making choices and finding alternatives. It studies how society decides what, how and for whom to produce goods and services. Robbins defined Economics as a social science subject that studies human behaviour as a relationship between ends and scarce means which have alternative uses.

Interrelation between Education and Economics

The relationship between economics and education can be very well understood by analyzing the concept of economic development and Educational development.

Education as Human Growth:

It has been generally observed that some of the economically developed countries are also educationally advanced. They have almost cent per cent literacy and all children of school going age are enrolled in the school. As opposed to this there are some countries which are not economically much developed but they have registered tremendous educational progress. The most relevant examples of some countries are Sri Lanka, china, Myanmar (Burma) & Philippines. On the contrary there are some counties which are economically well off but they are educationally backward. The Gulf countries are the obvious examples of this type.

The overall situation which emerges is that generally the countries having higher levels of income or economically advanced also have higher level of educational attainment. The economically poor countries are likely to remain educationally backward if they do not give importance to education and / or do not allocate more funds to it and ensure optimum utilization of the available resources.

Concept of Economics of Education:

- Economics of Education as an area of study cannot be said to be a separate field of inquiry that is totally different from the ordinary economics.
- Economics of Education is the application of Economic principles, concepts, and laws to the process of Education.
- Economics of education studies human behaviour (in terms of human decisions), action and reaction about schooling. It further looks into how human behaviour affects economic development.
- Economics of education is one of the branches of ordinary economics, though, it is the study of how educational managers make official or approved choices from scarce available resources which is meant for the realisation of the best possible educational outcomes.

- Economics of Education employs the use of some elementary concepts commonly used in labour economics, public sector economics, welfare economics, growth theory and development economics.
- World known classical economists like Adam Smith, Alfred Marshall, John Stuart Mill had discussed education and development extensively, advocating for public investment in education.
- So, by the 1950s, economists gave attention to issues such as the relationship between education and economic growth; relationship between education and income distribution and also the financing of education.

Definition of Economics of Education:-

- The economics of education is a rapidly growing and evolving field that applies a diverse array of economic theories, models and quantitative methodologies to understand, analyse and improve the performance of education systems.

- Oxford Bibliographies

- Education economics or the economics of education is the study of economic issues relating to education, including the demand for education, the financing and provision of education and the comparative efficiency of various educational programs and policies.

-Wikipedia

Scope of Economics of Education

Economics of education as a systematic body of knowledge was born as a reaction to the difficulty faced by economists in their research rather as a spontaneous recognition of the economic dimensions of education. In other words, this new discipline is a byproduct of economic research.

Interest in knowing the basic determinants of economic development, the 'growth economists' came across a residual in growth which could not be explained in terms of the conventional factors of production i.e. labour and capital. In their trial and error approach for identifying the other logical and statistical grounds, was found to be very important variable, explaining more than

66 percentage of the residual. Robert Solow's earlier study on aggregative production function provided the necessary theoretical base for this new branch. The contributions of T. W. Schultz, Becker Vaizy etc enriched this theoretical foundation.

The scope of economics of education however was widened subsequently as a natural corollary of the theory. Attempts have been made to estimate the economics returns different types and levels of accordance and to develop models of planning of education in accordance with economic requirements of the individual and of the economy. The literature on these aspects has developed at such a rapid pace that economics of education has now come to receive a status of a significant branch of economics. Even some of the universities in India have now separate units of economics of education in their department of economics: Mumbai University is one such example.

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Economists analyze the production of education in this world where resources such as the capital invested in buildings or technology and the labour of the teacher workforce are necessarily scarce. This scarcity of resources means that policymakers must decide:

1. How much to spend on each stage of education (i.e. what to produce);
2. How to provide educational services in a way that maximizes its benefits to society (i.e. how to produce education); and
3. Who should have access to each stage of education (i.e. for whom is education provided).

There are three decision makers or stakeholders in the educational system. These are (1) The society (2) The institutions or providers/suppliers of education and (3) Individual or households (purchasers of educational services). The twin problem of scarcity and choice face these major stakeholders.

The fundamental problem of economics of education is how the society, institution and the households make use of the limited human and material resources they have, to best satisfy their unlimited wants for education. The solution to the fundamental problem requires the application of certain economic concepts.

The study of economics of education includes private and social rates of returns to education, human capital and signaling theories of education, non-pecuniary benefits of education, education and economic development, contribution of education to the economy, measuring educational expenditure, manpower planning, educational planning and human resource development, educational cost, cost analysis, educational production, educational effectiveness and efficiency, costs-efficiency and cost-effectiveness, cost-benefit analysis and economics of teacher supply, educational and equity.

Need of Economics of Education:

The need of Economics of Education as a subject to be studied can be explained on following point of view:-

- 1) Villagers do not send their children to primary schools despite the provision of free primary education. Failure of compulsory primary education programme is largely due to the lack of proper responses from these people. This is because people know that opportunity cost of primary education is higher than that of other activities.
- 2) For the same reason of high opportunity cost of primary education the dropout rate of children of poor farmers is found to be higher.
- 3) High opportunity cost of education is one of the factors preventing from the full use of the concessions under prospective discriminatory measures in education, so far the scheduled caste and scheduled tribe people are concerned.
- 4) Since the various concessions and benefits of increasing education expenditure have been accruing to the richer than to the poorer people and since richer people are politically more influential, larger expenditures on education are made on higher education. Education expenditure are a more definite and a subtler form of benefiting a particular group in the society, without causing any open resentment to others. It is for this reason that expenditure on higher education in our country has been increasing much faster than expenditure on school education. This is so because higher education by and large benefits the richer and upper income more than the poor and low income group people.
- 5) It is for the same reason expenditure on education in urban areas has been rising than in rural areas.
- 6) Expenditure of larger economics benefits from surer that employment and larger earnings – from education is the main reason for greater rush of students to professional colleges.
- 7) Since general school education is preferred for admission in colleges and since employment and earnings are less attractive for technical schooling there is overcrowding in general schools that in technical schools.

Importance of Economics of Education:

As economics deals with planning, financing and appropriate utilization of resources and basic education is the fundamental right to all in India; it becomes very essential to equate the available resources. The present time educationists as well researchers also endorsed the viewpoint of some of the economists of 1963, that economics of education is the need of the hour. Although some of the researchers have expressed their resentment and opposition that consideration of economics aspect of education would completely overshadow its other important dimensions, but majority of economists and educationists of our country are now prepared to accept the need and importance of the subject for the following specific reasons :

1. Rising Cost: The proportion of national income spent on education has increased in the recent years.

2. Secondary Industries: As individuals becomes richer the proportion of their income devoted to food and other basic necessities drop. The amount they spent on health, education etc. rises.

3. Technological Transformation: The basis of the technological transformation of the world economy can be found in the accumulation of knowledge.

4. Health and productivity: The low productivity of many workers in various countries is directly attributable to their poor physical state. This in turn depends to a considerable extent on the type of education that the workers receive.

5. Shortage of Skills: It is a common belief that a shortage of skills holds back economic growth. An effective education plan must be based on the needs of skill manpower of all sorts. An unplanned system of education results in unemployed persons 107 and deprives the nation of their contributions to the growth of national income. Thus the specialized role of manpower forecasting brings the economics of education into prominence.

6. Demand of Scarce Resources: Education can be made cheap in the developing countries in the sense that there is a superabundance of manpower which can be harnessed very conveniently. Education thus makes limited demands on the scarcest resources of the country. The under developed countries are short of

physical and sometimes of natural resources. This implies that the use of abundant supply of manpower and its endowment with skills is likely to be one of the major objectives of any programme, planning, financing through the understanding of economics of education.

7. Extra ordinarily high monetary cost of education: Education in the developing countries is most prominently poorly administered, lacking in planning and coordination. And one of the most striking features of education reform in the poor countries has been their extra – ordinarily high monetary cost. For the most efficient mobilization of country's resources, it is paramount importance that the plans for the development of economy and for developing human resources must be coordinated. Education cannot be left of the general plan. The neglect of education means overlooking the importance of an adequate supply of skill manpower and the efficient uses of resources in education. John Vaizey observes: "since education makes large demands on public funds about 20% of government expenditure in recently developed countries it is an important part of economic programme, because of its cost alone. But it has also an important positive contribution to make to economic growth."

Status of Economics of Education in present time:

One needs to assess the value of the subject and its existence in the system. There are two criteria for a particular subject being studied or taught in a given course of study.

1) Theoretical consideration: The subject should be a body of fundamental knowledge which is a prerequisite for the understanding of other subjects.

2) Practical consideration: The subject should have a practical significance in the sense that its understanding would be useful in taking efficient decisions in some of the practical problems. Let us focus whether economics of education satisfies these criteria of assessment. Economics, according to Marshall, is a study of man's actions in the ordinary business of life. It inquires how man gets his income and how he uses it. The other side of the thought is – how much investments does he make in generating his personal and national Income. While it cannot be confidently asserted that economics of education is a fundamental discipline it cannot be denied that resource has to be taken to this subject to explain some of

the fundamental puzzles in economics theory. For example the residual in economic growth skewness in income distribution even with normally distributed abilities, employer's interest in the welfare of the employees in developing countries.

Questions for Evaluation:

1. Define economics of education.
2. Differentiate between ordinary economics and the economics of education.
3. How is education related to economics?
4. Explain the scope of Economics of Education.
5. Explain the importance and need to study Economics of Education.