

ECONOMICS OF EDUCATION

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ABSTRACT

This research paper highlights the main factors that come under economics of education; in the field of education, there have been application of economic principles, laws, rules, concepts, strategies and policies. The main areas that have been emphasized upon are meaning and scope of economics of education, validity for the study of economics of education, the role of the economic system in financing of education and absorbing the educated manpower, education as an industry, educational policy, functions of education ministries, and types of educational costs. Mainly economics of education is concerned with the investment in the field of education, costs involved in all areas related to an individual's education such as books, stationary, uniforms, transportation and so forth. It is vital to understand this area as education as become an imperative requirement for all the individuals, therefore, it is essential to become aware of the above stated concepts in the economics of education.

Keywords: Economics, Education, Manpower, Industry, Educational Policies, Education Ministries, Educational Costs

INTRODUCTION

Economics of education cannot be stated to be the separate field of enquiry that is different from normal economics. It is the application of economic principles, concepts, laws to the process of education. Economics of education studies human behavior in terms of human resolutions, acts and responses about schooling and how human beings familiarize themselves with the educational system. It further looks into how human behavior influences 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 preferences from scarce available resources which is meant for the realization of the best possible educational outcomes. Economics of Education utilizes some elementary concepts that are commonly used in labor 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 comprehensively, advocating for public investment in education. By the 1950s, economists provided awareness to issues such as the relationship between education and economic growth; relationship between education and income distribution and also the financing of education (Economics of Education, n.d.).

The fundamental problem of economics of education is how the society, institution and the households make use of the limited human and material resources that they have in order to satisfy their educational requirements in the best possible manner. The study of this area includes private and social rates of return 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 (Economics of Education, n.d.).

MEANING AND SCOPE OF ECONOMICS OF EDUCATION

The economics of education is a field, a subject area that is about understanding how and why individuals make decisions regarding investing in education; another area that is taken under consideration is the consequence of education on long-term societal and financial outcomes, the activities of those institutions that generate education, and how best to devise and execute public policies affecting the level and allotment of education resources. The indispensable tools of economics provide a structure to evaluate education policies including early childhood interventions, K-12 school finance, and college selection and financial assistance. This field begins by considering individual decisions to empowerment in schooling and then towards the assessment of elementary and secondary education. The initial stages of education such as early childhood and postsecondary education are also taken under consideration. The scope and meaning of economics of education also comprises of discussions of education markets in other countries and knowledge and information of current policies and involvements and their possible effects. In educational institutions, the economics of education is even considered to be a field of study and, there is a prominence on exploratory pragmatic tests of the economic theory and measuring the outcomes of policy initiatives on educational products (Fitzpatrick, 2011).

VALIDATION FOR THE STUDY OF ECONOMICS OF EDUCATION

There have been some reasons that have been classified that indicate validation for the study of economics of education: (School of Education, n.d.).

1. There has been an increase in the cost of education, and the increasing pressure in available resources makes it imperative to introduce economics into education. Formulating means and strategies of reducing the rising cost of education is stated to be the major concern for education economists.
2. There has been an increasing level of unemployment amongst school dropouts; in some of the sectors of the economy there has been a scarcity of human resources.

- This shows that there is a disparity between the type of education available and the type needed by the economy; therefore, there is a need to synchronize the two situations with appropriate economic practices and techniques.
3. In schools and other educational institutions, there has been deterioration in the quality of education; the school employees and instructors do not feel satisfied with the performance of the existing students and even those students who drop out of school. The on the whole effect on the economic productivity of the country requires cost-effective intervention.
 4. Within the economy, there are various sectors such as administrative, industry, banking and so forth and education is only one of the sectors in the economy; not on the major basis but on partly basis, each sector does depend upon the others for survival. Economics of education will ensure the fact that education is appropriately connected to the other sectors. For example, it could be projected and provided in the educational system through coherent economic plans.
 5. There has been an increasing politicization of education and due to this there has been an ungraceful development of the educational system. Determinants of the direction of education, distribution of resources, organization, the substance and learning environment have become entirely political and therefore, call for a severe economic concern.

THE ROLE OF THE ECONOMIC SYSTEM IN FINANCING OF EDUCATION AND ABSORBING THE EDUCATED MANPOWER

An economic system is the structure of production, distribution of economic outputs, and consumption of goods and services in an economy. It is a set of establishments and their social relations. Alternatively, it is the set of standards by which problems of economics are concentrated upon, such as the economic problem of scarcity through allocation of predetermined productive resources. An economic system is made up of people and institutions comprising their relationships to productive resources, such as through the convention of property. Examples of contemporary economic systems include capitalist system, communist system, socialist system and mixed economy (Economics of Education, n.d.).

The principal role played by the state in the financing, regulation and provision of primary and secondary education reveals the widespread belief that education is necessary for personal and societal well-being. The economic organization of education depends on political as well as market methods to determine issues that arise because of contrasting views on such matters as income inequality, social mobility and multiplicity. Today, some capitalists have been the owners of or direct controlling authorities of the institutions of higher education; most of the companies do provide financial support to higher education, besides, capitalist also influences higher education in an indirect manner. The most important influence of capitalism on higher

education is the survival of the capitalist system itself; the reason being that it is a major system of power in society, people and social structures become accustomed to capitalism. On the other hand, in a communist society, financing of education is done by the state. In the mixed economy, financing of education is shared both by individuals and the state. Similarly, in a capitalist society, educated manpower is absorbed by the economy depending on demand for and supplies of the skills and abilities of the individuals i.e. the market forces. On the other hand, in a communist society, the state decides what type of manpower is required and accordingly, education is provided to individuals and thereafter, they are absorbed by the economy. In a mixed economy, the individual depends on market forces for acquiring services (Economics of Education, n.d.).

EDUCATION AS AN INDUSTRY

Education apparently produces educated individuals who, are expected to have enhanced efficiency and invention skills. Thus, the process by which education transforms comparatively uncreative individuals into productive ones is not to be understood or stated. In other words, it is indispensable to comprehend the educational production function. Considering education as an industry also engages the subject of norms and provides a rationale to evaluate educational performance making use of means other than examination results. The evolution into the labor market provides a natural substitute indicator of educational success. There are many passageways that individuals can take through education into work, including further education, higher education, apprenticeship schemes, continuing education and so on. Individuals with diverse characteristics have different possibilities of passing through any one of these passageways, and economists have had substantial success in recent years in developing this transition. The labor market for teachers is different from many occupation-specific labor markets, for a number of reasons. First, teacher training is a prolonged process and thus modifications in the market take time. Secondly, for various reasons, feminization of the teaching profession has taken place that has left the market with a large collection of latent supply. Thirdly, government often has an important part to play in both the demand and supply sides of the market. All these characteristics make the market for educators substantially different from other labor markets, and require cautious investigation. Thus, education is termed as an industry as it produces reasonably productive individuals, it requires human and non-human resources for carrying out this human production function and in today's context, market forces participate in an important function in the demand and supply of education (Economics of Education, n.d.).

EDUCATIONAL POLICY

Educational policy means a less overstated approach to establishing priorities in education. It means making provision of appropriate incentives for the users and producers of

education. The main purpose is to formulate the policies and strategies in such a manner that it would render their effective contribution towards the country's well being. There has been an intersection of demand and supply conditions that have been established by the individuals, families and the actions of the state. In the educational system there has been a major part that has been played by the state in all the countries; in some countries it is less and in some it is more. The responses of the individuals to the encouragements and benefits to invest in a given level and type of education; the state acts upon the paternalistic reasons in order to protect the uninformed users of educational services or to organize it in more graceful manner for exterior and distributive outcomes. There have been two types of educational policies, first is that the users of education have been granted the usage of vouchers and complete right and authority to select the school or the educational institution that is best suited for him/her; secondly, the policy is charter schools that opens the financing from the prerequisite of education (Psacharopoulos, 2004).

FUNCTIONS OF EDUCATION MINISTRIES

Following are the functions of education ministries: (Psacharopoulos, 2004).

1. There has been free education availability, though the quality of education is not very enriched.
2. Profound subsidization of higher education, which has proven to be more beneficial for the richer and the wealthier classes.
3. The provision of student loans has been to a limited extent, which is meant for financing of higher education.
4. Prohibition of private schools and regulation of their fees structure.
5. Prohibition of vouchers.
6. Guidelines and directives of university places.
7. Controlling the curriculum and instructional systems in schools and the provision of books.
8. Pay and reimbursement of teachers and professors is not very high.
9. Concern for quantity rather than quality; even if the quality of education is not very advanced at least it should cater to more number of people.
10. There have been training programs for the unemployed which are not very superior.
11. Budgeting of education is done by inertia
12. Fear of competition (GATS).

TYPES OF EDUCATIONAL COSTS

The costs of education can be classified into the following types: (Economics of Education, n.d.).

Individual or Private Costs – Individual costs or the private costs of education are those that are incurred by the learner, his parents, guardians or by the family as a whole, these are two types, direct and indirect. Tuition, examination fees, other fees, institutional supplies, books, technology, uniforms, bags, transportation costs etc come under the category of individual or private costs.

Institutional/Public/Social Costs – These costs are in concern of the society, they are borne out as a result of training and educational activities in the society at a given point of time. These are the costs as the name implies, incurred at the institutional level, government, private or mixed. These are the institutional or the public costs of education; these are analyzed in terms of variable or fixed costs, recurring and non-recurring costs of education, and current and capital costs; institutional costs are of two types, direct and indirect costs.

Direct Costs - They include all money expenditure incurred on different items by the student. Direct costs are expenses that can be individually identified and alleged as part of the cost of a product, service, or department. Typical direct costs include items such as instructional and other program materials printed, fuel, oil and repairs of vehicles used for home-to-school transportation, centralized data processing services, in-house equipment repairs, field trips, expenditure on tuition fees, other fees and charges, purchase of books, stationary, uniforms, hostel expenses and transport.

Indirect Costs - Indirect costs are those costs that cannot be directly charged to a particular program, but are featured to services, which are necessary to manage the program. Such services include, but are not limited to, accounting, budgeting, payroll preparation, personnel management, purchasing, warehousing and centralized data processing. Some programs check the permitted indirect cost rates, others have an administrative check that borders a combination of direct administrative costs and indirect costs, while others do not allow indirect costs at all, requiring that the entire award amount be spent on direct costs. These expenses are not paid directly to the educational institutions, but are associated with attending schools. An individual and his family are responsible for controlling some of them but not all.

Opportunity Costs – Opportunity costs are omnipresent, they are present due to scarcity and the necessity of selecting. Opportunity cost is not what is preferred when a selection is made; it is what is not selected in making a selection. Opportunity cost is the value of the forgone alternative, what is given up when something is achieved. For example, the opportunity cost of going to college is the money you would have earned if you worked instead. On the one hand, you lose four years of salary while getting your degree; on the other hand, you hope to earn more during your career, due to your education, to offset the lost wages. Thus, opportunity cost is the cost of alternatives foregone.

CONCLUSION

Economics of education is mainly concerned with the finances involved in the field of education; the investments, different kinds of costs, how the society, institutions and the households utilizes personal and material resources to satisfy their educational requirements in the best possible manner. The study of this area includes confidential and societal rates of return to education, human capital and 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. These are vital areas; hence economics of education has even been introduced as the course in Masters Programs in some of the educational institutions.

The economic system has played a crucial role in the financing of education and in utilizing the skills of educated and qualified personnel; education has been viewed as an industry, the main reason being that it produces individuals with knowledge, skills and aptitude. Educational policy means making use of incentives for the users and producers of education. There have been functions of education ministries and some of the important functions include making free education available, managing the curriculum and instructional systems in schools, provision of student loans, subsidization of higher education and prohibition of vouchers. There have been main five types of educational costs such as individual or private costs, institutional/public/social costs, direct costs, indirect costs and opportunity costs. All the above stated concepts provide understanding and knowledge of the area of economics of education.

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