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Return To Investment In Human Capital And Policy Of Labour Market: Empirical Analysis Of Developing Countries

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Abstract

Our objective in this paper is to examine the relation which exists between education and the policy of labour market. In order to calculate the profitability of the investment in the human capital we adopt the theory of the human capital and the hypothesis of the labour market segmentation. This paper summarizes in theory, the evaluation in the rate of profitability compared to education considering the individuals. In segmented and competitor labour market, the rise of the level of education generates a rise of the rates of unemployment and the manufacturing units proceed to use the level of education like a quantitative index of employment.

To evaluate the rate of cost on the investment in the human capital, we applied the econometric method using the available resources on several levels in the education system, which affects consequently on the supply of labour in the labour market.

Keywords: *education rate of return; labour market policy; human capital investment,*

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Introduction

The history of economic development revealed on the existence of relation between education and labour market, also the determination of human capital rate of return according to the concept of human development. This concept means mainly that the human being is a real fortune for the nations, whereas the human development is based on the widening of the human choices and increase in the effectiveness of each one, to get rid of the narrow and stationary state also the drifts which are imposed by the natural political and economic conditions.

The definition of human development according to Professor Amartin SEN that contributed to

develop the concept of “social rights” as an evaluation index to calculate the human welfare, whereas the traditional theories defined the welfare on the basis of utility. These remarks represent the paramount rights that everyone must have as political, social, and economic freedoms providing the opportunity to produce and develop the talents and invention. Also preserving human dignity to have better life, good health, the acquisition of various knowledge and the necessary resources for a suitable standard of living.

UN adopted this concept on the basis of an index to calculate the human development by referring to essential needs relating to the human being health conditions, the life expectancy and on the other hand, education as an index of literacy rate, scientific assets and the standard of living calculated by individual average income.

1-The theory of Human Capital

The theory of human capital was a subject to calculate the human capital rate of return that was developed by Minsser (1958); then continued by Schultzer E (1988) and Kard (1998). Several attempts were launched in order to discover the important role which is done by individual decisions and all depends on the rational economic behavior but the later is excluding from the field of application because of the existing differences between wages and distributions of incomes. These models relate primarily to the individual's decisions in human capital investment without any force of unspecified competition relating to the wages.

1-1 Essential Hypothesis

Let's suppose that the education and training programs period is long, it can cause the differences and disparities between the incomes of employees knowing that the training program plays an increasing role in the productivity of workers.

-The vision of the individuals during taking the decision about training makes it possible to gain higher salaries afterward thus covering the costs of training.

- The cost of training programs is refund after this period

- Individual cannot have another training opportunity in the future when this preceding period is finished.

On the basis of these hypotheses and in an equilibrium and competing state, the distribution of income is equal to the current value of future flows translates by the following equation:

$$Y_s \int_s^{n+s} e^{-rt} dt = Y_0 \int_0^n e^{-rt} dt \quad (1)$$

Y : annual income n : period of active life s : the number of schooling years

By calculating the integral we obtain:

$$Y_s e^{-st} (1 - e^{-rt}) = Y_0 (1 - e^{-rt}) \quad (2)$$

After calculation we have :

$$Y_s = Y_0 e^{rs} \quad (3)$$

The income equation is obtained after the logarithm calculation on the both sides which gives the following equation:

$$\ln Y_s = \ln Y_0 + rs \quad (4)$$

From this equation, the coefficient of schooling is equal to the human capital rate of return. This logarithmic equation does not take into account the investment carried out by individuals, who could in some cases develop their talents in their active life. These are considerations relating to an effect of experience in the determination of the grid of differences between wages. Moreover, contributions of Biker in developing

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