

Economics of Education: Meaning, Nature and Scope.

Introduction :

Economics of education is relatively a new field of academic discipline. The importance of systematic study of economic aspects of education were realized in the mid of twentieth century. So, the history of Economics of education is not very old. The subject matters of economics of education are concerned with both Economists and Educationists. The different economic aspects of education are also differing from country to country based on their economic system, economic growth and development. For example developed country invests more on their education comparing to the less developed country. The relationship between economic growth and educational development in the countries is always seen positive. So, Economics of Education is a new, dynamic and specialized field of study.

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Meaning of Economics of Education:

Economics of Education is relatively a new and separate branch of study which attempts to establish a cause and effect relationship between education and economic aspects. It is a specialized branch of study that applies the principles, theories and paradoxes of economics to the field of education. It uses the concepts of economics to explain the issues of education.

According to Babalola, Economics of Education studies human behaviour in terms of decisions, actions and reactions

about schooling. It analyses, how the individual learner takes his decision on the investment and expenditure of a particular level of

education. In the similar way in a country also, the government has to take decisions on three central problems of education.

Central problems arise because of the scarcity of resources.

These are:

- What type of education the country needs for its human capital formation?.
- How to produce educational opportunities and social set up for providing education?.
- For whom the educational facilities to be produced?.

These three are the crucial problems to be solved by the respective government of the country. In this context, economics

of education gives right path to choose the alternatives available

in solving these three central Problems. Economics of education

has to deal with how the government, society, institution and household use limited human and material resources to satisfy the unlimited wants of education. So, Economics of education is not only a theory based knowledge area but also a practical approach to address the educational challenges. In the remaining part of the unit you will learn about the nature and scope of economics of education.

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Nature of Economics of Education:

Economics of education is relatively a new branch of study into the academic discipline. Though the subject matter of economics of education had been reported by the economists long back, but it received familiarity as a discipline only in the mid of 20th century. So as a young discipline, the nature of economics of education is varied. In this part of the unit we will learn about the nature of economics of education. Look into the following points-

- **Scientific discipline:**

The focus of economics of education is to optimum use of educational resources, tools and techniques to achieve the educational objectives. Thus the economics of education is a science of allocating scarce educational resources among competing alternatives to education in order to achieve its goals. It is the science that deals with rationalization of scarce educational resources to achieve optimal goals of education.

- **Applied subject:**

Economics of education applies the theories and principles of economics to the field of education. The main function of economics of education is to address the issues of resource allocation and distribution to achieve the objectives of education.

- **New and emerging branch of education:**

Economics of education relatively a new and emerging branch of education. It evolves as a separate branch of study only in the mid of twentieth century.

- **Dynamic content areas:**

The subject matter of economics of education is very dynamic. The new ideas are continuously added to the subject matter of economics of education. It encourages the extensive research studies to expand its content areas.

- **Systematic body of knowledge:**

Economics of education is a systematic body of knowledge. It is the byproduct of extensive research studies in economics rather than the spontaneous recognition of the economic dimensions of education.

- **Interdisciplinary in nature:**

Economics of education is interdisciplinary in its nature. The subject matters of economics of education are related to education, economics, mathematics,

government system, management etc. It is seen that the content of economics of education are interrelated. From the above points you can easily realize the nature of economics of education. As a new discipline economics of education got its identity during 1950s. Many renowned economists like Adam Smith, Alfred marshal and J.S. Mill spoke many things about public investment on education, rate of return of education, human capital formation etc. during eighteenth and nineteenth century. But only by 1950s, economists start emphasis on education and its relationship with other factors like economic growth, income distribution, educational finance etc. Today economics of education stood as a separate and individual discipline having its own identity. Dear students, the changing nature of economics of education can be verified with its content areas. Let's discuss the subject matter of economics of education in next part of the unit.

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Scope of Economics of Education:

As you know that the word scope refers to the length and breadth of a subject. In this part we are going to learn the subject matter included in economics of education. Scope of Economics of Education is wide and dynamic. The subject matters of Economics of Education are drawn from both the Economics and Education disciplines. Basically the study of economics of education includes private and social rate of returns to education, human capital formation, relation between education and economic development, educational cost and benefits, educational planning, efficiency of education, cost effectiveness of education,

education and equity etc. These are the essential areas to be included in economics of education. According to Hanson the subject matter of economics of education falls into seven categories as follows-

- Human capital formation.
- Education's contribution to economic growth.
- Impact of education on earning.
- Historical analysis of economics of education.
- Relationship between education and earning.
- Programme budgeting and financing of education.
- Efficiency and equality of education as opportunity.

Considering the above categories, we can further elaborate the scope of economics of education under the following points.

1• Educational Cost:

Educational cost is the major area of study of economics of education. The quality of education is highly influenced by the cost incurred on a particular level of education. Babalola in his definition refers to

educational cost as a measure of what a student, an institution or the government has to give up in order educating an individual or a group of individuals. Educational cost is the monetary as well as non monetary values used up in the process of educating an individual or a group of individual. The subject matter of economics of education is incomplete without proper discussion of educational cost and its taxonomy.

2. Funding pattern of Education:-The financing pattern of different levels of education is another major area of study of economics of education. the balance growth of education is highly dependent on the healthy educational finance. Economics of education suggests the effective ways of financing education.

3• Educational Planning: Educational Planning refers to the application of rational, systematic analysis to the process of educational development with aim of making education more effective and efficient in responding to the needs and goals of its students and society. It is a system based exercise directed

towards achieving certain physical targets and objectives set by a society within certain time frame in education sector.

Educational planning is an important subject matter of economics of education. the details of educational planning is studied in economics of education extensively.

4• Human capital formation: Another vital area of economics of education is the Human capital formation and its theoretical approach. Human capital refers to the stock of productive skills and technical knowledge embodied in human beings (labour) through education and training. It is regarded as the knowledge, expertise and productive capacities that a person acquired through educational training and which enable him/her function effectively and efficiently in the society. It includes the knowledge, skills, competences, and attributes embodied in individuals that facilitated the creation of social welfare.

5• Investment in Education: Investment in education is another important subject matter of economics of education. In the words of Lucy “Investment is the process of postponing immediate consumption in the expectation of greater consumption in the future”. The investment theory in education posits that government or individuals should invest in educational projects with greater utility or highest rate of returns. Theoretical framework of Investment in education has occupied an important place in economics of education.

6• Cost benefit analysis (CBA) of Education: This is another concerned area of economics of education. CBA emphasizes a systematic comparison of the magnitude of the cost and benefits of some forms of educational investment in order to determine the economic profitability of such investment. It provides a rational model for investment decision making in education by relating the profitability of investment in one sector of the education enterprise to the other, or between various levels and types of education, such as vocational, professional, technical or general education. This content occupies an important place in economics of education as

it guides the investment decisions in right direction.

7• Rate of return in education: Returns to investment in education are the benefits derived by educational consumers as a result of their investments in education. The return of education can be of two types. These are private rate of return and social rate of return. By private rate of return we mean those benefits accrued to individuals at the end of schooling as a result of investment in education. The benefits derived by the government or society for an educational investment project is referred as social rate of return.

Researchers have been conducted large number of research on rate of return of different levels of education, which ultimately enhances the scope of Economics of education.

8• Efficiencies in education and signaling theories: Another concerned subject matter of economics of education is efficiencies of education and the impact of signaling theories. Efficiency in education generally refers to the capacity of an educational system to turn its products (students) out with minimum wastage. In other words, it refers to the ability of an educational system to achieve the desired output with a minimum application of inputs or resources. Efficiency in education can be internal and external.

9• Relationship of education and economic development: Economics of education also discusses about the relationship between educational achievement an economic development. There is a direct relation between these two elements.

Economic development can only be achieved with higher educational achievement, and in the reverse way, educational development is not possible without economic enhancement. In this way both economic development and education and complementary to each other.

10• Demand and supply of education: The growth of education is highly influenced by the demand and supply factor of education. The demand for education is a function of price, utility and the ability of government and people to

pay for it. On the other hand supply of education refers to the function of the fiscal strength of the government and private educational investors as well as the utility of education to the society. So, the balance between demand and supply of education is needed for balanced growth of education.

11• Education and labour market: The linkage between education sector and industry is a major concern area of economics of education. Economics of education studies how education can create efficient and skill-full human resources to increase the productivity of labour force.

Education has to be designed in such a way, as it cater the demand of labour market.

12• Management of educational finance: Economics of education has to give a focus on the ways of managing educational finance at government as well as institution level. It should develop efficient and effective procedure of managing finance in educational institutions.

These are some of the vital content to be studied in economics of education. The scope of economics of education is very vast. It is difficult to elaborate all the issues and contents of the subject matter here. You can study the suggested readings to explore more about the scope of economics of education.

Let us judge why the scope of economics of education is dynamic. The contribution in economics of Education during the last four and half decades opened up new areas of research in theories of growth, labour market, public finance and developmental economics. The theories of Social Justice and welfare economics are also incorporated in economics of education. Public policy becomes the major area of research in economics of education. The new subject matters are incorporated in this area at a fast pace. So, the scope of economics of education becomes very dynamic.