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Chapter 8: Human Development

Short Answers

CSM 05: Economic and Social Development-Sustainable Development, Poverty, Inclusion

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- **Non-Economic Factors Affecting Economic Growth**
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1 Population Growth

The term "**Population Growth**" refers to the increase or decrease in the size of a population. **Population growth** is an important factor in overall **economic growth** and, in some cases, may even contribute to **higher per capita output growth**. Rapid population growth in low-income countries is likely to be detrimental in the short and medium-term because it results in a large number of dependent children.

The population is a **labor force resource**. The labor force will grow in proportion to the size of the population. Labour alone is incapable of producing anything. A labor force is a productive asset for a country if other resources required for production are also available in sufficient quantity. If other resources are in short supply, a large labor force may become an impediment to faster economic growth.

1.1 Population Growth as Economic Factor in Economic Growth

- The **increase in labor supply** is a result of population growth, which creates a larger market for goods and services. As a result, more labour produces more output, which a larger market absorbs.
- Output, income, and employment continue to rise as a result of this process, and economic growth improves.
- However, population growth should be expected to be normal. **A galloping rise will stifle the economic progress.**
- Only in a sparsely populated country is population growth desirable. It is, however, unjustified in a densely populated country like India.

1.2 Measures Taken to Ensure Economic Growth

- An increasing population means a greater number of working people who can participate actively in the process of economic growth and development. Population growth leads to an **increase in total output**.
- A growing population means a larger market for most goods and services, and we all know that the size of the market limits the **division of labor**.
- A potentially **expanding market may encourage entrepreneurs to invest** in capital goods and machinery at an increasing rate. As a result, business activity will increase. As a result, more income and jobs will be created.
- Furthermore, it will serve as a market for the products of efficient, **large-scale mass-production industries.** The net effect may be beneficial to the country.
- Higher population growth rates would clearly lead to higher economic growth rates if population growth and per capita GDP growth were completely independent.
- On the other hand, if population growth affects per capita output growth, then the higher population growth rates will contribute to either higher or lower overall economic growth, depending on the nature of its effects on per capita GDP.

- Although the world's population is larger than ever, a large proportion of humanity's standard of living is also much higher than at any time in recorded human history.
    - Similarly, looking ahead, the potential for economic growth appears to be far greater than the potential for population growth.
    - For example, new strains of wheat, rice, and other foods, for example, have been discovered that have the potential to increase yields by two to five times in a short period of time.
    - In comparison, the world population would only double in about 35 years.
    - Of course, utilizing this potential would necessitate significant social changes, but the potential exists and is enormous.

1.3 Conclusion

There exists a conflicting role between population growth and economic development. It has the potential to be both a stimulant and an impediment to growth and development. Such opposing roles imply that the relationship between population and economic development is intricate, complex, and fascinating.

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2 Non-Economic Factors Affecting Economic Growth

Non-economic factors such as **socioeconomic, cultural, psychological, and political factors** are as important as economic factors in economic development. These factors not only influence the nature of government planning strategies, but also how these plans are implemented. We will look at some of the most important non-economic factors that influence an economy's growth.

2.1 Non-Economic Factors

Political Factors

- **Political stability** and strong administration are critical to modern economic growth.
- A stable, strong, and efficient government, honest administration, transparent policies, and their efficient implementation foster investor confidence and attract domestic and foreign capital, resulting in faster economic development.

Social and Psychological Factors

- Social factors include **social attitudes, social values, and social institutions**, which change as education expands and cultures shift from one society to the next.
- Modern ideology, values, and attitudes result in new discoveries and innovations, as well as the rise of new entrepreneurs.
- Outdated social customs limit occupational and geographical mobility, posing a barrier to economic development.

Education

- It is now widely acknowledged that education is the primary means of development. Greater progress has been made in countries where education is widely available.
- Education is important in human resource development because it increases labour efficiency and removes mental barriers to new ideas and knowledge, which contributes to economic development.

Desire for Material Betterment

- The desire for material advancement is a necessary prerequisite for economic development.
- Societies that place focuson self-satisfaction, self-denial, and faith in fate, limit risk and enterprise, causing the economy to stagnate.

2.2 Measures Taken to Ensure Economic Growth

- The **twelfth five-year plan (2007-12)** combines economic growth with inclusion, with the goal of faster, more sustainable, and more inclusive growth.

- The rate of economic growth has increased over time as a result of radical reforms implemented in the 1990s.
- Participation in **development programmes** on a large scale is required to accelerate the growth process.
- Administrative machinery's orientation shifts from regulator to facilitator.
- The **government's direct intervention** can now be seen in making available the necessary social investment, establishing independent regulatory institutional mechanisms, drafting incentive-based policy, etc.
- **Welfare schemes** are implemented in a variety of ways, including food subsidies, public distribution of essential commodities, nutrition programmes, and financial assistance through microfinance.
- The central and state governments have developed **customised welfare schemes** for various types of beneficiaries (women, children, BPL, etc.).
    - The **Integrated Child Development Scheme** is a type of welfare programme that benefits both children and women.
- The government is **encouraging public participation** in a variety of ways, and the average citizen must respond positively and pro-actively.
- **Promotion of SHGs** is a typical example of public participation. The government can provide a supporting platform for citizen-centric services, but the responsibility to deliver remains with the common man.
- Support and promotion programmes for SHGs have produced positive results in South Indian states, particularly Kerala and Andhra Pradesh.
    - The **Kudumbasree programme**, which is supported by the **Kerala government**, has been successful in empowering women and reducing poverty.
    - **Andhra Pradesh's 'Indira Kranti Pathakam'** initiative is making good progress in social mobilisation, gender empowerment, and rural poverty reduction.
- **Policy intervention** occurs at both the **micro and macro levels**.
    - Improving fiscal discipline, trade liberalisation, promoting Foreign Direct Investment, privatisation, deregulation, tax reforms, labour laws, social safety nets, public expenditure, and so on are **important macro policy measures.**
    - Reducing income inequality, improving public/social infrastructure, healthcare, education, access to essential services, accountability and transparency, women empowerment, the role of civil society organisations, and so on are **important micro policy measures.**

2.3 Conclusion

Development is not a mechanical procedure. The rate of economic growth in any country is heavily influenced by people's desire to progress. If a country's level of consciousness is low and the general populace accepts poverty as its fate, there is little hope for development.

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3 Economic Development

Economic development can be defined as the process of improving a nation's, community's, or region's **economic well-being** and **quality of life** in accordance with predetermined goals and objectives. Economic development is a result of a combination of market productivity and national welfare values. Understanding economic development is very important for UPSC IAS Exam Economy Subject.

In this article, let us see the meaning of economic development, its features, and ways to measure economic development.

3.1 Economic Development

- **Economic development** is defined as a sustained improvement in society's material well-being.
- Economic development encompasses a broader range of concepts than **economic growth**.
- Aside from national income growth, it includes **social, cultural, political, and economic changes** that contribute to material progress.
- It includes changes in resource supplies, capital formation rates, population size and composition, technology, skills, and efficiency, as well as institutional and organizational structure.
- These changes contribute to the larger goals of ensuring more equitable income distribution, increased employment, and poverty alleviation.
- It is a long chain of interconnected changes in fundamental supply factors and demand structure that leads to an increase in a country's net national product in the long run.

3.2 Features

- Economic development entails **changes in income, savings, and investment**, as well as gradual changes in the country's socio-economic structure (institutional and technological changes).
- Development related to **human capital growth**, a reduction in inequality numbers, and structural changes that improve the population's quality of life.
- To assess economic development, qualitative indicators such as the HDI **(Human Development Index),** gender-related indexes, **Human Poverty Index (HPI)**, infant mortality, literacy rate, and so on are used.
- Economic development results in **both qualitative and quantitative changes** in the economy.
- Economic development reflects progress in a country's **quality of life**.

3.3 Factors Affecting Economic Development

1. **Infrastructural Development**

- Infrastructure development improves people's quality of life.

- As a result, an increase in the rate of infrastructural development will result in a nation's economic development.

2. **Education**

- Improving literacy and technical knowledge will result in a better understanding of how to use various pieces of equipment.
- This will increase labor productivity and, as a result, a country's economic development.

3. **Increase in capital formation**

- An increase in capital formation will result in more productive output in an economy, which will have a positive impact on economic development.

3.4 Measurement

1. **National Income and Per Capita Income**

- This is the **traditional method** of assessing economic development.
- The World Bank employs the concept of per-capita **Gross National Income (GNI)** as a means of comparing and categorizing countries based on their economic development stage.
- The **World Bank** divides the world's economies into four income categories:
  - Low-income – Less than $1036
  - Lower-middle income – $1036 - $4045
  - Upper-middle – $4046 - $12535
  - High income – More than $12535

- According to this classification, **India,** with a per-capita GNI of US $ 1900 (as of 2020 figures), belongs to the **Lower-middle Income countries**.

2. **Purchasing Power Parity (PPP)**

- **Gustav Casell,** an economist, proposed the **PPP approach in 1918**.
- The concept is based on the **law of one price**, which states that in the absence of trade and non-trade barriers, identical goods in different countries will have the same price when expressed in the same currency.
- The PPP is defined as the number of units of a country's currency required to purchase the same amount of goods and services in the domestic market as one dollar would in the US.
- For example, if we have to spend ₹30 to buy the same amount of goods and services as are purchased in spending $1inUnited States, then the exchange rate in the PPP approach is $1 = ₹30.

3. **Green GDP**

- **Green GDP is a term that refers to GDP after accounting for environmental degradations.**
- Green GDP is an attempt to measure an economy's growth **by deducting the costs of environmental damage and ecological degradation from GDP**.
- **The concept was first introduced as part of a System of National Accounts (SNA).**
- The System of National Accounts (SNA) is an accounting framework for measuring an economy's economic activities of production, consumption, and wealth accumulation over time.
- When data on the economy's use of the natural environment is integrated into the national accounting system, it is referred to as **green national accounts** or **environmental accounting**.
- The environmental accounting process consists of three steps: physical accounting, monetary valuation, and integration with national income/wealth accounts.
- **Physical accounting** determines the state, types, and extent (qualitative and quantitative) of resources in spatial and temporal terms.
- **Monetary valuation** is used to determine the tangible and intangible components of a business.
- Following that, the net change in natural resources in monetary terms is incorporated into the Gross Domestic Product to arrive at the Green GDP value.

4. **Human Development Index (HDI)**

- The **Human Development Index (HDI)** is a statistical tool used to assess a country's overall performance in social and economic dimensions.
- The social and economic dimensions of a country are determined by people's health, educational attainment, and standard of living.
- In 1990, **Pakistani economist Mahbub ul Haq developed the HDI**, which was later used by the **United Nations Development Program (UNDP)** to assess the country's development.
- The index is calculated by combining **four major indicators**:
  - life expectancy for health,
  - expected years of schooling,
  - mean years of schooling for education, and
  - Gross National Income per capita for a standard of living.
- Currently, **India ranks 131 out of 189 countries** in the United Nations' Human Development Index.

3.5 Importance

- Just as we need to make conscious efforts to increase our income and growth, we also need to make conscious efforts to increase our economic development and higher economic development.
- **Development has not been possible anywhere in the world without a conscious public policy.**
- Similarly, we can say that there can be **no development without growth**.
- If economic growth is used properly for development, it will re-accelerate growth and eventually bring a larger population into the development arena.

- Similarly, high growth with low development leads to a decline in growth.
- Economic development is a more relevant indicator of progress and quality of life in developing countries such as India, where inequality in wealth distribution is prevalent.

3.6 Conclusion

- Economic development is a subset of economic growth but encompasses a broader scope than economic growth.
- Economic development employs a variety of indicators to assess the state of an economy as a whole.
- Each community has its own set of opportunities, challenges, and priorities. People who live and work in the community must be included in the economic development planning.

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4 Economic Growth and Economic Development

Even though the terms **economic development** and **economic growth** sound similar, there is a significant difference between the two. While both economic growth and economic development are important indicators of a country's **economic health**, there are important distinctions between the two.

Economic growth is a relatively **narrow concept**. It entails a **quantitative increase** in output, whereas economic development includes qualitative changes such as social attitudes and customs, in addition to **quantitative growth in output or national income**. Economic development is nearly impossible to imagine without growth.

In this article, we will understand what these two terms mean and why we should know the difference between the two.

4.1 Economic Growth

- **Economic growth** is defined as an **increase in the production** of economic goods and services from one period of time to another.
- **Economic growth denotes an increase in both national income and per capita income.**
    - The increase in per capita income is a better measure of Economic Growth because it reflects an improvement in the living standards of the masses.
- Let's consider that a unique berry only grows naturally in the land of Utopia. This berry has been utilised by natives of Utopia for many years, but a wealthy German traveller recently found it and took samples back to Germany. Because his German acquaintances like the berry, the tourist invested in a major berry exporting company in Utopia. Hundreds of Utopians were engaged by the new berry exporting company to farm, harvest, wash, box, and ship the berries to German supermarkets.
- Because the total value of the goods and services generated by the new berry exporting business exceeded one million dollars in a calendar year, the berry exporting business added over one million dollars to Utopia's GDP. Utopia's GDP increased, indicating that the country achieved economic growth.
- Economic growth is defined as an increase in **real national income** rather than an increase in money income or **nominal national income**.
- In other words, the increase should be based on an increase in the output of goods and services rather than a simple increase in the market prices of existing goods.
- **Real income** should rise gradually over time: The rise in real national income and per capita income should be sustained over time.
- Seasonal or temporary income increases should not be confused with economic growth.
- Income growth should be based on increased productive capacity.
    - Increases in income can only be sustained if they are the result of a long-term increase in the economy's productive capacity, such as:

    - Modernization or the use of new technology in manufacturing, infrastructure strengthening such as transportation networks, improved electricity generation, and so on.
- **Capital goods, labour force, technology, and human capital** all have the potential to contribute to economic growth.

4.2 Economic Development

- **Economic development** is defined as a sustained improvement in society's material well-being.
- Few indicators of economic development are qualitative indicators such as the HDI (Human Development Index), gender-related indexes, Human Poverty Index (HPI), infant mortality, literacy rate and so on.
- From the above example of Utopia, before the berry exporting business, most Utopians lived in small settlements spread out over many miles. Only a small percentage of Utopians had access to schools, clean water, or healthcare. To feed their immediate families, utopian men worked long hours attempting to harvest land that was naturally unsuited for most crops.
- After the export of berries and an increase in the government's revenue, Utopians will get better access to schools, clean water and affordable healthcare. The export industry provides better wages and fixed working hours. Utopia's development indicators such as literacy rate, per capita income and access to healthcare, improve indicating economic development.
- Economic development encompasses a broader range of concepts than economic growth.
- Aside from national income growth, it includes **social, cultural, political, and economic changes** that contribute to material progress.
- It includes changes in resource supplies, capital formation rates, population size and composition, technology, skills, and efficiency, as well as institutional and organisational structure.
- These changes contribute to the larger goals of ensuring more equitable income distribution, increased employment, and poverty alleviation.
- It is a long chain of interconnected changes in fundamental supply factors and demand structure that leads to an increase in a country's net national product in the long run.

4.3 Economic Growth vs Economic Development

Basis of Comparison	**Economic Growth**	**Economic Development**
Meaning	Economic growth is defined as an increase in the country's real output of goods and services.	Economic development entails changes in income, savings, and investment, as well as gradual changes in the country's socio-economic structure (institutional and

		technological changes).
Factors	Growth is defined as a gradual increase in one of the components of GDP: consumption, government spending, investment, and net exports.	Development related to human capital growth, a reduction in inequality numbers, and structural changes that improve the population's quality of life.
Measurement/ Example	Economic growth is measured quantitatively by factors such as real GDP growth or per capita income growth.	To assess economic development, qualitative indicators such as the HDI (Human Development Index), gender-related indexes, Human Poverty Index (HPI), infant mortality, literacy rate, and so on are used.
Effect	Quantitative changes in the economy are brought about by economic growth.	Economic development results in both qualitative and quantitative changes in the economy.
Relevance	Economic growth reflects national or per capita income growth.	Economic development reflects progress in a country's quality of life.

4.4 Why Economic Growth and Economic Development are important?

- Economic growth is a widely used term in economics that is useful not only for national-level economic analyses and policymaking but also for comparative economics.
- International financial and commercial institutions base policymaking and future financial planning on the available growth rate data for the world's economies.
- The most important aspect of growth is its **quantifiability**, or the ability to quantify it in absolute terms.
- Just as we need to make conscious efforts to increase our income and growth, we also need to make conscious efforts to increase our economic development and higher economic development.
- Development has not been possible anywhere in the world without a **conscious public policy**.
- Similarly, we can say that there can be no development without growth.
- If economic growth is used properly for development, it will re-accelerate growth and eventually bring a larger population into the development arena.
- Similarly, high growth with low development leads to a decline in growth.

4.5 Conclusion

- Economic development is a subset of economic growth. Economic development encompasses a broader scope than economic growth.
- Economic development employs a variety of indicators to assess the state of an economy as a whole; however, economic growth employs only a few indicators for calculation, such as gross domestic product, individual income, and so on.
- Economic Growth is frequently contrasted with Economic Development, which can be defined as an increase in an economy's or nations economic wealth for the benefit of its residents.
- It should be noted that economic growth is necessary but not the only condition for economic development.

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5 Indicators of Economic Development

Indicators of Economic Development are one way to assess a country's development progress. These economic indicators and associated parameters provide **critical data points for making informed decisions**. There are numerous indicators used, and it is beneficial to understand what the terms mean. **GDP, GNP, national debt, trade balance, credit rating, and wealth distribution** are some of the most common economic indicators.

5.1 Types of Economic Indicators

- **Leading indicators** predict economic changes in the future. They are extremely useful for forecasting short-term economic developments because they typically change before the economy.
- **Lagging indicators** typically appear after the economy has changed. They're most useful when used to confirm specific patterns. Economic predictions can be made based on patterns, but lagging indicators cannot be used to predict economic change directly.
- **Coincident indicators** provide useful information about the current state of the economy in a specific area because they occur at the same time as the changes they indicate.

5.2 Important Indicators of Economic Development

1. **Gross Domestic Product (GDP)**

- **Gross Domestic Product (GDP) is a lagging indicator.**
- GDP is a measure of a **country's economic activity**. It is calculated by totaling a country's annual output of goods and services.
- This metric more accurately reflects the income paid to production factors.
- It excludes aspects of the good life, such as some recreational activities. It also excludes economically valuable but unpaid activities such as parents teaching their children to read.
- However, it does include some activities that degrade the quality of life, such as those that harm the environment.

2. **Gross National Product (GNP)**

- GNP is calculated by adding to GDP the income earned by residents from **foreign investments**, less the income sent home by foreigners living in the country.

3. **National Debt**

- The **total outstanding borrowing** of a country's government is referred to as its **national debt** (usually including national and local government).

- Although public debt may have economic benefits, it is frequently described as a burden.
- Debt incurred by one generation can certainly become a heavy burden for subsequent generations, especially if the money borrowed is not wisely invested.

4. **Balance of Trade**

- Balance of Trade is a **lagging indicator.**
- The **balance of trade** (or net exports, sometimes abbreviated as **NX**) is the difference in the monetary value of an economy's exports and imports of output over a given time period.
- It refers to the relationship between a country's imports and exports.
- If a country's trade balance is positive or favorable, it is referred to as a **trade surplus**; if the balance is negative or unfavorable, it is referred to as a **trade deficit** or, a **trade gap**.
- A trade surplus is generally desirable because it indicates that more money is coming into the country than is leaving.
- A trade deficit indicates that more money is leaving the country than is coming in. **Trade deficits can result in substantial domestic debt.**
- In the long run, a trade deficit can lead to a depreciation of the local currency because it causes significant debt. The local currency's credibility will suffer as debt levels rise.
- However, if a country's trade surplus is too large, it may not be taking advantage of the opportunity to buy products from other countries.
- In a global economy, nations specialize in manufacturing specific products while purchasing goods produced more efficiently by other nations at a lower cost.

5. **Credit Rating**

- **A credit rating assesses an individual's, corporations', or even a country's creditworthiness.**
- It is a credit bureau's assessment of a borrower's overall credit history.
- A credit rating is an evaluation of a potential borrower's **ability to repay the debt** that is prepared by a credit bureau at the request of the lender.
- Credit ratings are **based on financial history as well as current assets and liabilities.**
- A credit rating typically informs a lender or investor about the likelihood of a subject's ability to repay a loan.
- Credit ratings, nowadays, are also used to adjust insurance premiums, determine employment eligibility, and determine the amount of a utility or leasing deposit.
- A poor credit rating indicates a high risk of loan default, which leads to high-interest rates or the creditor's refusal to give loan.

6. **Distribution of Wealth**

- A comparison of the wealth of various members or groups in a society is referred to as the **distribution of wealth**.
- It differs from income distribution in that it considers the distribution of ownership of assets in society rather than the current income of its members.

- Wealth is defined as a person's net worth, which is expressed as:
    - **Wealth = Assets - Liabilities**
- The terms **'wealth'** and **'income'** are often confused and used interchangeably. These two terms refer to two distinct but related concepts.
- An individual's wealth consists of the items of economic value that he or she owns, whereas income is an inflow of items of economic value.

7. **Inflation**

- Inflation is defined as the annual increase in the prices of goods, services, and wages.
- High inflation is a bad sign, indicating that the government has lost control of the economy.

8. **Demographics**

- Demographics is the study of population growth and structure. It compares birth and death rates, as well as life expectancy and urban-rural ratios.
- Many LEDCs have a younger, faster-growing population than MEDCs, with more people living in rural areas than in cities.

9. **Stock Market**

- The stock market is a **leading indicator**. It's also the indicator that most people look to first, despite the fact that it's not the most important.
- Stock prices are influenced in part by what companies are expected to earn. If the earnings estimate for companies is correct, the stock market can forecast the direction of the economy.
- A **down market**, for example, may indicate that overall company earnings are expected to fall and that the economy is on the verge of a recession.
- On the other hand, an **upmarket** could imply that earnings estimates are rising and, as a result, the economy as a whole is doing well.

10. **Unemployment**

- **Unemployment is a lagging indicator.**
- The number of jobs created or lost in a given month is an indicator of economic health that can have a significant impact on the securities market.
- When more businesses hire, it indicates that the businesses are doing well. More hiring may also lead to predictions that more people will have more money to spend because more people are employed.
- Unemployment rates that arise unexpectedly or fall less than expected can sometimes be associated with a drop in stock prices because it may imply that employers cannot afford to hire as many people.

11. **Consumer Price Index (CPI)**

- The Consumer Price Index (CPI) is a **lagging indicator**.

- The CPI measures changes in the prices paid by urban consumers for goods and services over a given month. It is essentially a measure of changes in the cost of living.
- It provides a measure of inflation in terms of purchasing those goods and services.

12. **Interest Rates**

- Interest rates are a **lagging indicator**.
- Borrowers are more hesitant to take out loans when interest rates rise. This discourages consumers from taking on debt and businesses from expanding, potentially slowing GDP growth.
- If interest rates are too low, this can increase demand for money and increase the likelihood of inflation.
- Inflationary pressures can distort the economy and the value of its currency.
- **Current interest rates reflect the current state of the economy** and can also predict where the economy will go in the future.

13. **Currency Strength**

- The strength of the currency is a **lagging indicator**.
- When a country's currency is strong, its purchasing and selling power with other countries increases.
- A country with a strong currency can import goods at lower prices and sell them at higher foreign exchange rates.
- When a **country's currency is weaker, it can attract more tourists** and encourage other countries to buy its goods because they are cheaper.

14. **Manufacturing Activity**

- Manufacturing is a **leading indicator** of the economy.
- Orders for **durable goods** are a leading indicator of manufacturing activity.
- Durable goods are consumer products that are typically not replaced for at least a few years, such as refrigerators and automobiles.
- An increase in durable goods orders is generally regarded as a sign of economic health, whereas a decrease may indicate economic trouble.

15. **Income and Wages**

- Income and wages are **lagging indicators**.
- Earnings should rise to keep up with the average cost of living when the economy is performing well.
- **When incomes fall in relation to the average cost of living, it indicates that employers are either laying off workers, lowering pay rates, or reducing employee hours.**
- Income declines can also indicate an environment in which investments are underperforming.

5.3 Conclusion

An economic indicator is only useful if it is correctly interpreted. Indicators provide signs from time to time, but the best investors combine multiple economic indicators to gain insight into patterns and verifications within multiple sets of data.

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6 Human Development

Human development can be defined as the process of improving people's well-being through increasing their freedoms and possibilities. Human development focuses on enhancing people's lives rather than expecting that increased economic growth will result in increased happiness for all. The UPSC Indian Economic Syllabus includes Human Development which is described in this article.

6.1 Human Development

- Human development is a process of improving people's choices, such as **education, health care, income, and empowerment,** and it encompasses the complete range of human choices, from a healthy physical environment to economic, social, and political freedom.
- As a result, the most important part of human progress is expanding people's choices.
- People's choices may include a variety of issues, but **living a long and healthy life, being educated, and having access to resources necessary** for a decent standard of living, such as political freedom, guaranteed human rights, and personal self-respect, are all considered **non-negotiable aspects of human development.**

6.2 The Four Pillars

1. Productivity
2. Equity
3. Sustainability
4. Empowerment

Productivity

- It refers to **human labour productivity** or productivity in terms of human effort in this context.
- People's capacities must be continually enhanced in order to maintain high levels of production. People are, in the end, a country's most valuable resource.
- As a result, efforts to **improve their knowledge** or provide **better health facilities** result in increased productivity.

Equity

- It refers to ensuring that all people have **access to the same opportunities**.
- People must have equal access to opportunities **regardless of their gender, ethnicity, income, social position, or, in India's case, caste**. However, this is not always the case, and it occurs in practically every community.

- For instance — It's fascinating to examine which demographic accounts for the majority of school dropouts in any country. This should lead to a better understanding of why such conduct occurs.
    - In India, a substantial number of women and people from economically and socially disadvantaged backgrounds drop out of school.
    - This demonstrates how a lack of access to knowledge limits the options available to these populations.

Sustainability

- It refers to the **availability of opportunities remaining constant**.
- To achieve long-term human growth, each generation must have equal **access to decision-making possibilities**.
- Sustainable development necessitates the utilization of all environmental, financial, and human resources with the future in mind.
- If any of these resources are misused, subsequent generations will have fewer chances.
- The necessity of sending girls to school is an excellent example.
    - If a community does not emphasize the value of sending girls to school, these young ladies will miss out on many chances.
    - Their professional options will be limited, which will have an impact on other elements of their lives.
- As a result, it is critical for each generation to ensure that future generations have access to options and opportunities.

Empowerment

- To have the **ability to make decisions**. Increased freedom and capability to select are the sources of such power.
- To empower individuals, **good governance** and **people-centered policies** are essential.
- Empowerment of socially and economically marginalised populations is particularly important.

6.3 Approaches to Human Development

- Basic needs
- Income
- Capability
- Welfare

Basic Needs Approach

- The **International Labour Organization (ILO)** was the first to advocate this strategy.
- Six fundamental needs were identified: **health, education, food, water supply, sanitation, and shelter.**

- The issue of individual choice is neglected, and the focus is instead on meeting the basic requirements of specific groups.

Income Approach

- This approach is one of the oldest approaches to human development.
- Income is thought to be linked to human growth. The concept is that an individual's amount of freedom is reflected in his or her income.
- The more one's income, the higher one's level of human development.

Capability Approach

- This approach is associated with **Prof. Amartya Sen**.
- The key to enhancing human development is to improve human capacities in the areas of health, education, and resource access.

Welfare Approach

- Human beings are seen as beneficiaries or goals of all developmental efforts in this paradigm, which advocates for more government spending on education, health, and basic necessities.
- People are merely passive recipients, not active players.
- The government is exclusively accountable for boosting human development levels through maximising welfare spending.

6.4 Measuring Human Development

Human Development Index (HDI)

- It is a **statistical tool** used to quantify a **country's overall accomplishment** in its **social and economic dimensions**, and it is published annually by the **United Nations Development Programme (UNDP).**
- The health of people, their level of education, and their style of life determine a country's social and economic characteristics.
- The economist **Mahbub Ul Haq** developed a human development method that is based on Nobel Laureate Amartya Sen's work on human capacities.
- Its goal was to "move development economics away from national income accounting and toward people-centered policy."
- HDI is broken down into **four tiers**–
    - Very high human development
    - High human development
    - Medium human development
    - Low human development
- HDI measures the average success of a country in **three basic dimensions** of human development:
    - A long and healthy life
    - Access to knowledge

- A decent standard of living

6.5 Conclusion

- Human development tends to offer people more freedom and opportunities to live their lives as they choose. People must be able to enhance and utilise their strengths in order to achieve this.
- Human development is a multidimensional concept. The key elements of human development are represented by the three variables used by the UN in the Human Development Index (HDI).
- A long and healthy life, knowledge, and a fair level of living are the three key dimensions.
- When these important dimensions are provided initially, the prospects for advancement and improvement in other aspects of human life will expand as well.

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7 Human Development Index (HDI)

Human development index (HDI) is a **statistical tool** used to measure a country's overall accomplishment in its **social and economic dimensions**, and it is published by the **United Nations Development Programme (UNDP)**. The health of people, their level of education, and their style of life determine a country's social and economic dimensions. The UPSC Indian Economic Syllabus includes the Human Development Index which is described in this article.

7.1 What is the Human Development Index (HDI)?

- The **Human Development Index (HDI)** measures the level and changes in quality of life by combining indicators of life expectancy, education or access to knowledge, and income or standard of living.
- **Mahbub ul Haq and Amartya Sen**, two renowned economists from Pakistan and India, created the measure.
- It was created as a **complement to the gross domestic product** because it emphasises the importance of human development in the growth process.
- India appears to have done a fantastic job of multiplying its GDP many times over, but development on the HDI front has been disappointing.
- India's HDI score has risen at an annual average rate of 1.42 percent over the last three decades, according to HDI data.
- As a result, if India is to achieve its goal of becoming a superpower, it must invest to alleviate the weight of social and economic disadvantage on the poor.

7.2 Dimensions of Human Development Index

Long and Healthy Life

- **Life expectancy at birth** is used to calculate the dimension of a long and healthy life.
- The life expectancy at birth is a statistical measure of how long an average person is expected to live based on demographic factors such as birth year and current age.

Education

- The HDI's second dimension is education. The **expected years of schooling** and the **mean years of schooling** are the education indicators.
- According to the United Nations, the average maximum number of years of schooling is **18 years**, while the mean maximum number of years of schooling is **15 years**.

Standard of Living

- The **gross national income (GNI) per capita** is commonly used to assess the standard of living.

- The GNP measures the total domestic and foreign output generated by a country's residents.

Progress Made by India

- India's **gross national income per capita has more than doubled** since 2005, according to the UNDP's HDR Report 2019, and the number of **"multidimensionally poor" individuals has decreased** by more than 271 million since 2005-06.
- **Inequalities in "basic areas"** of human development have **also decreased**.
- In terms of educational attainment, historically marginalised groups, for example, are catching up to the rest of the population.

7.3 Reasons for India's Underperformance on HDI

India is ranked 131st in the 2020 HDI, with a per capita income of $6,681, a notch lower than its 2019 ranking of 129th. Deep-rooted societal and economic disadvantages are to account for a poor ranking for an economy that is in the world's top six in terms of size. The following causes can be attributed to India's poor HDI performance:

- **Increasing Income Inequalities:** Income disparities amplify failures on other HDI human development indices. In countries with substantial income disparity, intergenerational income mobility is lower.
- **Gender Inequality:** According to statistics, female per capita income in India is just 21.8 percent of that of males, although it is more than twice in other emerging countries, at 49 percent.
- **Cumulative Impact**: These elements have a long-term impact that spans generations. This intergenerational loop deprives people at the bottom of the pyramid of opportunity.

7.4 Conclusion

India's HDI scores can be significantly improved if a politically committed government implements inclusive policies to improve public health, education, and nutrition, as well as to eliminate gender discrimination and usher in a more equal society.

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8 Classification of Countries

The World Bank classifies countries based on the Gross National Income (GNI) per Capita data. Based on the GNI per capita data the countries are classified as lower-income, lower-middle-income, upper-middle-income, and high-income countries. This classification generally overlaps with the terminology of Developed, Developing/Emerging, Underdeveloped, and Least developed countries. In this article, we will see the general characteristics of the different classifications of countries.

8.1 Classification of Countries - An Introduction

- Countries are classified as developed or developing based on their **gross domestic product (GDP)** or **gross national income (GNI) per capita**, level of industrialization, the general standard of living, and technological infrastructure, among other factors.
- The United Nations (UN) defines a country's development status as a reflection of its **"basic economic country conditions**."
- The **human development index (HDI) is a metric developed by the United Nations that is used to assess countries' social and economic development** levels based on life expectancy, educational attainment, and income, and it serves as an alternative means of determining a country's development status.
- For instance, many western countries such as the USA, UK, France, Germany, and Sweden are considered developed countries, and few countries in the African continent like Ethiopia, Gambia, Guinea, and Eritrea are classified as the Least Developed Countries.

8.2 Developed Countries

- A developed country, also known as an **industrialized country**, has a mature and sophisticated economy, as measured by GDP and/or average income per resident.
- Developed countries have **sophisticated technological infrastructure** as well as diverse industrial and service sectors. Their citizens usually have **access to good health care and higher education.**
- Because there are so many variables to consider, determining which countries are developed can be difficult.
- Developed countries have **more advanced post-industrial economies**, which mean that the **service sector generates more wealth than the industrial sector.**
- They are contrasted with developing countries that are **either industrializing or are pre-industrial** and almost entirely agrarian, some of which may fall into the category of Least Developed Countries.

8.3 Characteristics of Developed Countries

- **Has a high per capita income:** Developed countries have high per capita incomes year after year. **The country's economic value will be increased by having a high per capita income.** As a result, the level of poverty can be reduced.
- **Security is ensured:** When compared to developing countries, developed countries have a **higher level of security.** This is also a result of advanced technology in developed countries. **Security facilities and weapon technology** are also improving as a result of advanced technology.
- **Guaranteed Health:** A developed country's **health is guaranteed in addition to its security.** This is distinguished by a wide range of **adequate health facilities, such as hospitals, as well as trained and dependable medical personnel.**
    - As a result, **mortality rates** in developed countries can be reduced while population life expectancy can be increased. Furthermore, with adequate healthcare facilities, **population growth** in developed countries can be controlled.
- **Low unemployment rate:** The unemployment rate in developed countries is relatively low because every citizen can find work.
- **Mastering Science and Technology:** People in developed countries are more likely to have mastered science and technology, which has resulted in the introduction of new useful products to the market, such as industrial pendant lights. As a result, they have used s**ophisticated technology and modern tools** to help them in their daily lives.
- **Level of exports exceeds the level of imports:** Because developed countries have superior human resources and technology, the level of exports exceeds the level of imports.

8.4 Developed Countries: Criteria

- One such criterion is the income per capita; countries with high GDP per capita would thus be classified as developed.
- The most common metric used to determine whether an economy is developed or developing is per capita GDP, though no strict level exists for an economy to be classified as developing or developed. Some economists believe that a **country's per capita GDP of $12,000 to $15,000 is sufficient for developed status,** whereas others believe that a country is not developed unless its per capita GDP is greater than $25,000 or $30,000.
- Another economic criterion is **industrialization**; countries, where the tertiary and quaternary sectors of industry predominate, would thus be classified as developed.
- Recently, another measure, the **Human Development Index (HDI)**, which combines an economic measure, national income, with other **measures, indices for life expectancy and education**, has gained prominence. This criterion would classify developed countries as having a **very high (HDI) rating**.

8.5 Top 10 Developed Countries

- Norway
- Ireland
- Switzerland

- Iceland
- Hong Kong, China
- Germany
- Sweden
- Australia
- Netherlands
- Denmark

8.6 Under Developed Countries

- An "**underdeveloped country**" is one that has widespread chronic poverty and less economic development than other countries.
- The term "underdeveloped country" is **unofficial**, but countries that would qualify as such are generally classified as developing countries or least-developed countries (LDCs) by the United Nations, which lists 46 nations as least-developed as of 2021.
- The World Bank refers to **underdeveloped countries as low-income countries** (a term that is gaining popularity), while other organizations refer to them as emerging markets, **newly industrialized countries, or members of the "Global South."**

8.7 Characteristic of UDCs

- **Low per capita income** and widespread poverty- People in developing countries make very little money. **In 2006, the United States' per capita GNP was $44,970 (US$). The average for low-income countries was $650 (US), which was less than 1.4 percent of that of the United States.**
- **Lack of capital,** both public and private- Not only do very few citizens of developing countries own lumber yards, factories, and other businesses, but the government is nearly as poor and lacks funds to properly build and support roads, railways, schools, and hospitals, among other things.
- **Population explosion-** In most developing countries, the birth rate far outnumbers the death rate, resulting in overpopulation. If growth is too rapid, systems such as infrastructure, food supplies, and social services may be unable to keep up.
- **Excessive unemployment-** One of the most significant consequences of disproportionate population growth is skyrocketing unemployment, which is caused by a slow-growing job market matched with a rapidly expanding population.
- **The predominance of agriculture-** Agriculture still accounts for 40-50 percent of national income in most developing economies, compared to 2-8 percent in developed economies.
- **Small and ineffective investments-** Both citizens and governments in developing countries have little extra income to save or invest, and the little they do have is frequently invested in ways that do not lead to national growth.
- **Reduced productivity-** In underdeveloped countries, land, labor, and capital all produce less than in developed countries. Laborers are poorly educated, malnourished, and receive inadequate medical care. Existing resources are typically managed inefficiently or with less-technological solutions.

8.8 Top 10 underdeveloped countries in the world

- Niger
- Republic of Central African Republic
- Chad
- Burundi
- Mali
- South Sudan
- Burkina Faso (Burkina Faso)
- Sierra Leone (SL)
- Mozambique
- Eritrea

8.9 Least Developed Countries

- **Least-developed countries (LDCs) (also known as less-developed countries) are developing countries** that face significant structural challenges to long-term development.
- There are **currently 46 countries on the UN's list of LDCs**. Least-developed countries are **particularly vulnerable to economic and environmental shocks**, and they have fewer human assets than other countries.
- Least-developed countries are sometimes referred to as **"emerging markets" in some contexts**.
- LDCs have access to **specific international support measures for development assistance and trade** that more developed countries do not have.

8.10 Features of LDCs

- Least-developed countries (LDCs) are low-income countries that face **significant structural barriers to long-term development.**
- The **United Nations Committee on Development Policy** devised measures to assist LDCs in gaining access to and benefiting from international assistance.
- The United Nations' list of LDCs contained 46 countries as of October 2021.

8.11 LDCs: Criteria

The General Assembly (GA) and the **Economic and Social Council (ECOSOC)** have mandated the **Committee on Development Policy (CDP)** to review the list of LDCs every three years and make recommendations on the inclusion and graduation of eligible countries based on the following criteria:

Gross National Income (GNI) Per Capita

- **Rationale:** GNP per capita provides information on a country's income status as well as the overall level of resources available.
- **Thresholds:** The inclusion threshold is set at the three-year average of GNP per capita, as defined by the World Bank for identifying low-income countries. **In 2021, the threshold is less than 1046 USD GNI per capita.**

- **Methodology:** GNP is calculated by converting national accounts data into USD using the **World Bank Atlas method** (to reduce the impact of short-term exchange rate fluctuations) GNP per capita is calculated by dividing a country's GDP in USD by its annual population.
- **Sources of information:** The United Nations Statistics Division calculates GNP per capita using its National Accounts Main Aggregates Database. The United Nations Population Division provided the population data.

Human Assets Index (HAI)

- **Rationale:** The HAI is a measure of the level of human capital. Low levels of human assets indicate significant structural impediments to long-term development. A lower HAI indicates a lower level of human capital development.
- **Thresholds:** The CDP has used absolute thresholds for the HAI to determine inclusion and graduation eligibility since 2015. **The inclusion criterion was set at 60.** The graduation threshold is 10% higher than the inclusion threshold of 66.
- **Composition:** The HAI is made up of six indicators that are grouped into a health and education subindex, with each indicator carrying an equal weight of 1/6. Using a max-min procedure, the original values for each HAI indicator are converted into index numbers.

Economic & Environmental Vulnerability Index (EVI)

- **Rationale:** The Economic Vulnerability Index (EVI) is a measure of structural vulnerability to economic and environmental shocks. High vulnerability indicates significant structural impediments to long-term development. A higher EVI indicates greater economic vulnerability.
- **Thresholds:** The CDP has used absolute thresholds for the EVI to determine inclusion and graduation eligibility since 2015. The threshold for inclusion has been set at 36. The graduation threshold is 10% lower than the inclusion threshold of 32.
- **Composition:** The EVI is made up of eight indicators that are divided into economic and environmental subindices, with each indicator carrying an equal weight of 1/8. Using a max-min procedure, the original values for each EVI indicator are converted into index numbers.

8.12 Other indicators

Human Development Index

- The HDI was created to emphasize that people and their capabilities, rather than economic growth alone, should be the ultimate criterion for assessing a country's development.
- The HDI can also be used to question national policy choices, such as how two countries with the same per capita GNP can have such disparities in human development outcomes. These contrasts can spark discussion about the government's policy priorities.

- The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development, such as living a long and healthy life, being knowledgeable, and having a good standard of living. The HDI is the geometric mean of the normalized indices for each dimension.

Happiness Index

Gross National Happiness Index is a much richer objective than GDP or economic growth. In this index, material well-being is important but is also important to enjoy sufficient well-being in things like community, culture, governance, knowledge, wisdom, wealth, health, spirituality, psychological welfare, balanced use of time, and harmony with the environment. GDP does not measure well-being.

8.13 Conclusion

Gross domestic product (GDP) is the total value of a country's finished domestic goods and services over a given time period. The gross national product (GNP), a related but distinct metric, is the value of all finished goods and services owned by a country's residents over time. GDP and GNP are two of the most commonly used measures of a country's economy, representing the total market value of all goods and services produced over a specified time period. However, Human Development Index (HDI) is an alternative and sustainable method to measure the growth of an economy.

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9 Human Capital

The monetary value of a person's knowledge, skills, and competencies is referred to as **human capital**. To determine an individual's human capital, add up his current wages and what he is projected to earn in the future. The UPSC Indian Economic Syllabus includes Human Capital which is described in this article.

9.1 What is Human Capital?

- The **economic value** of a **worker's experience** and **skills** is referred to as human capital. Education, training, intelligence, skills, health, and other qualities valued by employers, such as loyalty and punctuality, are all examples of human capital.
- As a result, it is an **intangible asset** or characteristic that does not (and cannot) appear on a company's balance sheet.
- Human capital is thought to **boost productivity** and **consequently profits**.
- The more a firm invests in its personnel, the better its prospects of productivity and success increase.

9.2 Understanding Human Capital

- From the top down, an organisation is only as good as its people, which is why human capital is so important to a firm.
- Workforce planning and strategy, recruitment, employee training and development, and reporting and analytics are among the key directives.
- Human capital acknowledges that not all work is created equal. Employers, on the other hand, can improve the quality of that capital by investing in their workers.
- Employees' education, experience, and abilities can be used to accomplish this. All of this has a significant economic impact on employers and the whole economy.
- These investments in human capital can be easily calculated because they are based on the investment of employee skills and knowledge through education.
- Any human capital return on investment (ROI) can be computed by dividing the company's total profits by its entire human capital investments.
- For example, if Company Xyz invests $1 million into its human capital and has a total profit of $10 million, managers can compare the ROI of its human capital year-over-year (YOY) in order to track how profit is improving and whether it has a relationship to the human capital investments.

9.3 Human Capital and Economic Growth

- Human capital has a strong relationship with economic growth, which is why it can help boost the economy.
- This is due to the fact that people have a wide range of abilities and information. This relationship can be assessed by how much money is invested in people's education.
- Some governments realise the link between human capital and the economy, and as a result, they provide free or low-cost higher education.

- People with a **greater level of education** are more likely to earn better salaries, allowing them to spend more.

9.4 Does Human Capital Depreciate?

- Human capital, like anything else, is subject to depreciation. Wages or the capacity to stay in the workforce is frequently used as indicators.
- Unemployment, injury, mental deterioration, and the inability to keep up with innovation are the most typical ways human capital depreciates.
- Consider an employee with a unique skill set. They may not be able to maintain these levels of specialisation if they are unemployed for a long time. That's because, once they reenter the workforce, their talents may no longer be in demand.

9.5 History of Human Capital

- Human capital is a concept that dates back to the 18th century. The concept was introduced by **Adam Smith** in his book '**An Inquiry into the Nature and Causes of the Wealth of Nations'**, which examined a nation's wealth, knowledge, training, abilities, and experiences.
- Adams proposed that increasing human capital through training and education results in a more profitable firm, which contributes to society's overall prosperity. That, according to Smith, makes it a **win-win situation** for everyone.
- The term was most recently used to denote the labour necessary to manufacture manufactured goods.
- But the most modern theory was used by several different economists including **Gary Becker** and **Theodore Schultz**, who invented the term in the 1960s to reflect the value of human capacities
- Schultz felt that human capital, like any other type of capital, could be used to improve the quality and quantity of output. This would necessitate an investment in an organization's employees' education, training, and better benefits.
- But not all economists agree. Human capital, according to Harvard economist **Richard Freeman**, was an indicator of talent and competence.
  - He believes that in order for a company to truly become productive, it must teach and inspire its personnel as well as invest in capital equipment.
  - He came to the conclusion that human capital was not a component in production.

9.6 Criticism of Human Capital Theories

- Many people who work in the field of education and training have criticised the human capital idea.
- The theory was criticised in the 1960s primarily for legitimising **bourgeois individualism**, which was seen as greedy and exploitative.
- The bourgeoisie was made up of persons from the middle class who were seen to exploit the working class.
- The notion was also thought to hold people responsible for any systemic flaws and to turn employees become capitalists.

What Are Examples of Human Capital?

Communication skills, education, technical abilities, creativity, experience, problem-solving skills, mental health, and personal resilience are all examples of human capital.

9.7 Relationship between Human Capital and the Economy

- Human capital enables a country's economy to expand.
- Gains in human capital in fields like science, education, and management lead to increases in innovation, social well-being, equality, productivity, and participation rates, all of which contribute to economic growth.
- Increases in economic growth tend to increase a population's quality of life.

9.8 What is Human Capital Risk?

- The gap between a company's or organization's human capital requirements and its workforce's existing human capital is referred to as **human capital risk.**
- This chasm can lead to inefficiency, failure to meet goals, a tarnished reputation, fraud, financial loss, and eventual liquidation of an organization.
- An organisation should teach, foster, and support its personnel to mitigate and eliminate human capital risk.

9.9 Conclusion

- Human capital is an intangible asset that is not recorded on the financial sheet of a corporation.
- The term "human capital" refers to qualities such as an employee's experience and skills.
- Because not all labour is created equal, firms can develop human capital by investing in their employees' training, education, and perks.
- Economic growth, productivity, and profitability are all seen to be linked to human capital.
- Human capital, like any other asset, can depreciate due to long periods of unemployment and a failure to stay up with technology and innovation.

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10 Sources of Human Capital

Education is considered to be one of the most important **sources of human capital.** There are a number of other resources available as well. Investments in health, on-the-job training, migration, and information are some of the other ways to develop human capital. In this article Sources of **Human Capital** is described which is important for the UPSC exam.

10.1 What are the Sources of Human Capital?

Education, along with other sources such **as health, migration, on-the-job training, and knowledge**, is recognised as one of the most important sources of human capital. Let's discuss it one by one.

Investment in Education

- The most effective strategy to develop and expand the state's productive workforce is to strengthen and expand the educational system.
- It is recognized as the **foundation for the development of human capital,** which is why parents and the government invest more in education.
- The following are some of the reasons why individuals and governments invest more in education:
    - To increase their future earnings.
    - To increase manpower and improve technical capabilities, hence increasing worker productivity and resulting in economic growth.
    - Reduce the birth rate and make the most resources accessible each person to manage the population growth rate.
    - It is possible to impart knowledge and education to others, resulting in social benefits.

Health-related investments

- The health sector is the second most important source of human capital formation.
- Providing clean and safe drinking water, medicinal drugs, are few examples of health-related investments.

Migration

- Individuals migrate from their native place to another place in order to obtain higher salaries and better jobs.
- **Unemployment is the primary driver** of rural-urban migration in India.
- Other professionals, such as doctors and engineers, relocate from one country to another in pursuit of better possibilities.
- In both cases, migration costs include transportation costs, as well as the cost of living in the relocated location.

- Increased earnings in the new location outweigh the costs of migration. As a result, migration investment is another source of human capital formation.

On-the-Job Training

- Many businesses provide on-the-job training **to boost labour productivity**.
- This is a costly source of income, and employers suffer significant costs for delivering on-the-job training.
- In-house training, training under the supervision of a professional supervisor, and off-campus training are some examples.

Investment in Information

Spending money can provide access to information on education and health. For example, data on salaries is prepared for various markets.

10.2 Problems of Human capital Formation

- **Population growth**: Rapid population growth, particularly in emerging nations, can have an impact on the quality of human capital formation. It reduces the current facility per capita availability. A huge population necessitates additional investments.
- **Long process**: Because skill growth takes time, the approach used for human development is a long process. As a result, the procedure becomes unusually slow.
- **Gender inequality and high regional disparity:** Gender inequality and wide regional disparities have an impact on human growth ability.
- **Insufficient on-the-job training:** In the agriculture industry, workers do not receive on-the-job training to operate sophisticated equipment.
- **Poverty:** Poverty is widespread in India, with a huge fraction of the population living in poverty. As a result, they have limited access to primary health care and education.

10.3 Conclusion

Education investment is one of the most important sources of Human Capital Formation. There are numerous more sources of human capital production, including on-the-job training, health-care investment, information, and migration.

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