

6. Provides highlights to policy makers of various educational policies;
7. Help determine efficient size of educational institutions
8. Highlights the difficulties associated with measuring educational returns- helps determine the private and social rates of returns to education.

#### Alternative B

1. Have knowledge of the link between education and economic growth;
2. Importance of education to the country's development; modern industrialised economies require skilled manpower, and schools and colleges transmit much of the knowledge and the skills which young people will need when they join the labour force; thus, the relationship between training and employment are of vital importance to an economist in the education field;
3. Make rational decisions relating to educational finance and management for example by determining priorities;
4. Avoid mere rhetoric in educational; policy decisions making;
5. Knowledge of the factors that influence demand and supply of education;
6. Aids in understanding internal and external efficiency of educational institutions;
7. Avoid educational wastages by addressing quality issues in education;
8. Realise the issue of scarcity of resources and the need to use educational resources optimally.

#### The Concept of Opportunity Cost and Scarcity of Resources

##### Scarcity and economic resources

A fundamental concept in economics is the scarcity of resources.

- What we produce, as goods or services;
- What we produce them with, that is, productive resources.

Resources are limited (scarce) yet human wants are unlimited. The needs must be placed in some order of importance and the more important ones are satisfied first. Since resources for production are scarce and there are not enough goods and services to satisfy them, choices must be made.

Choice is necessary because resources are scarce. Consumers must choose what goods and services they will have, while on the other hand producers must choose how to use their available resources and what to produce.

#### The concept of opportunity

The raison d'être of economics is man's desire to satisfy as many wants as possible within the existing stock of resources. This is achieved by using the stock of available resources as efficiently as possible so as to derive the greatest from them.

### Boundaries of the discipline

Economics as a discipline encompasses a broad spectrum of sub-areas:

1. General economics – theory, history and systems;
2. Economic growth – development, planning, fluctuations;
3. Economic statistics;
4. Monetary and fiscal theory and institutions;
5. International economics;
6. Administration, business finance, marketing and accounting;
7. Industrial organisation, technological change, industry studies;
8. Agriculture, natural resources;
9. Manpower, labour, population;
10. Welfare programs, consumer economics, urban and regional economics.

On a micro level economists may be concerned with the minutest detail of a person's economic existence, such as the goods he buys in a supermarket, the job he chooses, his pay rate, his decision on family size, or the type and quantity of education he wishes for himself and his progeny.

From a macro economic standpoint, interest would focus on factors affecting aggregate consumption patterns, job search and labour market knowledge, wage levels, population size and trends, and the demand for educational services.

Economics of education draws upon both micro and macro theory. Some topics in the economics of education such as investment, financing and productivity utilise both macro and micro tools.

Microeconomic analysis - questions of supply and production functions have their theoretical foundations in micro economic theory.

Investment in education system provides the basis for development and research. In turn, there is a guarantee for continuous economic growth of modern societies.

The educational investment of a country keeps intact and constantly adds to the stock of knowledge and makes possible continuous research and discovery of new methods and techniques.

The learning process assures an open society; a people ready to consider new ideas and to accept new attitudes and processes. Note that economic and social forces interact.

Acquisition of education and training entails the foregoing of present consumption for expected flow of monetary and non-monetary benefits.

Developing countries have invested in education for a number of reasons including:

- Manpower demands
- Encouraging modern attitudes
- Acculturating diverse groups
- Providing economic opportunities for the people

#### External economies, indirect benefits or social benefits

External economies (indirect/externalities) consist of those benefits which are not confined to individual economic units (spillovers) to the economy as a whole, raising the level of real income and welfare generally.

Important social and political benefits of education which accrue to the populace as a whole, e.g.

- a better informed electorate,
- more culturally alive neighborhoods
- a healthier and less crime-prone population
- efficiency in exchange of goods enhanced by general literacy
- reduction in crime (a country can shift resources that would have had to be used for police functions to other ends)

#### Indirect benefits

- Psychological satisfaction an individual derives from having an ambition is a benefit which can be equated with satisfaction one derives from consuming something.
- The educational process is intimately related to advances in knowledge. It is equally clear that advances in knowledge have important economic effects

#### Private benefits

Critics of the direct returns to education approach have repeatedly emphasised that such calculations ignore the so called “consumption” or cultural contributions of education. Consumption is satisfaction and has non-quantifiable benefits.

College education can be considered as a consumer durable good, yielding a stream of future services over the lifetime of the individual.

An enrolment may bring current consumption benefits. These include social, intellectual and sporting activities available in most colleges and universities. Socrates for instance advocated that people should be very analytical and given to questioning; they should derive pleasure, enjoyment and enlightenment.

Wider enjoyment and pleasure in life outside work

Education should lead us to appreciate culture, sensitise us to appreciate aesthetics (drama and sports).

NB

There is a need for a balanced curriculum. A country threatened by social disintegration may adopt consumption-oriented curriculum, e.g. emphasise good citizenship through civics/ethics and sports.

In the 1970s the World Bank came up with a very clear definition of what it wanted education to look like in LDCs. It identified six major aspects it wanted to develop in education:

1. Eradication/ reduction of poverty through provision of basic needs and raising the standards of living. (Investment aspect).
2. Formation of skills corresponding with the needs of developing countries. (Investment aspect).
3. Development of skills specifically for rural areas. (Investment aspect).
4. Ensuring mass participation in education and development. (Investment aspect).
5. Address issues of equity. Education should try to solve problems of inequitable distribution of resources. (Investment aspect).
6. Ensuring that education is provided efficiently by avoiding wastage. (Investment aspect).

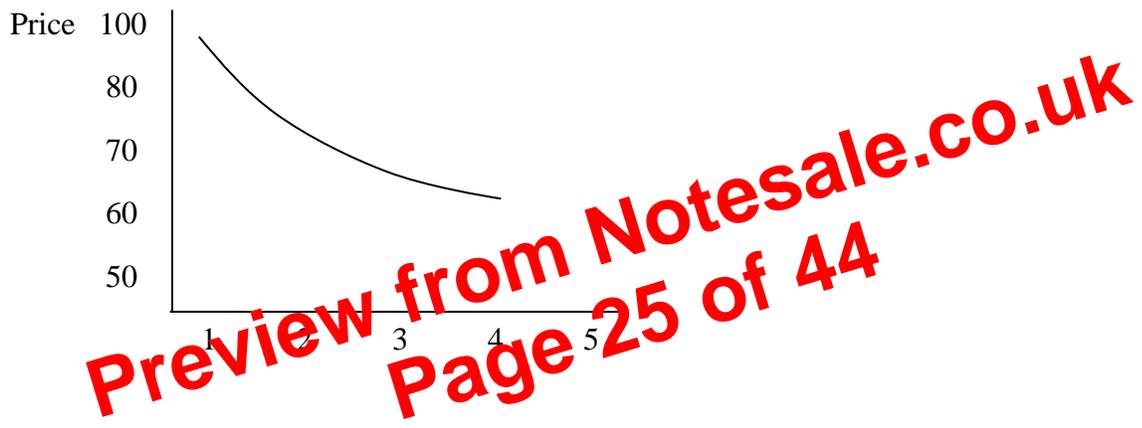
### **Educational objectives in Kenya**

1. Foster national unity (Consumption aspect)
2. Education should recognise and equip the youth with knowledge and skills. (Investment aspect).
3. Education must serve the needs of national development. (Investment aspect).
4. Education should provide full development of talent and personality. (Consumption aspect)

An individual demand schedule is a list of the various quantities of a commodity which an individual consumer purchases at different prices in the market. It states the relationship between two variables – price and quantity demanded.

***Demand schedule for an individual consumer/ household***

Price of 200pg book	Quantity of books demanded
30	1
25	2
20	3
15	4
10	5



A normal demand curve slopes downwards from left to right. This presents an inverse functional relationship. This is so because quantity demanded increases as the price reduces (income and other factors remaining constant.)

**The law of demand**

Under the same conditions of demand, the quantity of a commodity bought tends to vary inversely with its price, that is, the quantity demanded of a good or service is negatively related to its price, ceteris paribus. At a higher price, less of the commodity would be purchased and a lower price, more of it would be bought, provided the conditions of demand remain unchanged.

**Application of demand theory to education**

*Aggregate private demand for education*

This is the kind of equity that ensures inequalities in one generation are perpetuated in subsequent generations. So the government should ensure that that doesn't happen. It should be noted that equity and equality are not synonymous. Equality is a goal, i.e. trying to remove injustice while equity is fairness.

### Methods of financing education

#### 1. Cost sharing

- It is intended to reduce the expenditure in formal education and training to about 30 percent of national recurrent budget;
- Through the use of more cost-effective measures in the utilisation of educational facilities, equipment, materials and personnel;
- Tertiary education student allowances should be discontinued; boarding and lodging allowances should be withdrawn;
- Loans given to students should be efficiently recovered and scholarships should be given to bright students only or students from poor families.

#### 2. Central and local government

- Education is treated as an essential social service which promotes development and thus deserves public financing. Finance for education by the local government are derived from the local services treasury of individual localities.

#### 3. Loans

- Providing loans to those undertaking education is becoming a widely practised method of financing education in Kenya. Major objective underlying loans systems is the need for equity, which is equalisation of educational opportunities. This is justified on the grounds of social justice and efficiency.
- The current way of financing higher education in Kenya is said to be inequitable and inefficient. DISCUSS.
  - i. Loan schemes may act as a disincentive to those working;
  - ii. Loan scheme would create small university elite;
  - iii. Loan scheme would discourage those from lower income and increase the inequality gap;
  - iv. Loan scheme would promote inequity where the poor are taxed to finance education of those who already have.
- Reasons that led to the introduction of university loan scheme (Kenya, 1974):
  - i. Equity and equality of opportunity for higher education;
  - ii. Government lacked funds to cover tuition to all qualifying students;
  - iii. Supply sufficient funds for university education;
  - iv. Lack of perfect central market and banks willing to advance loans to students;
  - v. Expected higher private rates of return to university graduates.

## Educated unemployment

Educated unemployment refers to those people who have received some formal education ranging from primary, secondary and college but are not able to find wage employment.

### Why the government should continue to invest in education

1. The government is faced with change. The only way to manage change is through learning.
2. Knowledge is necessary for development to take place.
3. Investment in people is the most durable investment.
4. Human capital is the most critical asset in the country's development.
5. Organisations that nurture intellectual capital are the ones that compete and survive in this age.
6. Investment in education goes beyond (intergenerational mobility)
7. Political systems and economic systems-the poor performance of the economy should not discourage investment in education.
8. Investment in education is essential to develop organisational structural capital.
9. Education should lead to social cohesion and lead to a pool of social capital in the country.
10. Education has consumption benefits to individuals.
11. The educated, depending on the education received may become job creators and not just seekers.
12. With globalisation, those with education may work elsewhere apart from their home country.

### Types of unemployment

#### 1. *Open unemployment*

This refers to a situation where labour resources are idle. It may be voluntary (if people exclude from consideration some jobs, for which they are qualified, perhaps because they have a private income from other sources) or involuntary.

#### 2. *Underemployment*

This refers to those working less (daily, weekly or seasonally) than they would like to work.

#### 3. *The visibly but underutilised*