

# THEORY OF HUMAN RESOURCES (ECN 216)

Prepared By:

ADEKEYE EMMANUEL SEGUN

## Objectives

- At the of the class, students should be able to:
- Define Human resources/manpower, human capital and Human capital formation
- Understand the theory behind human capital as applicable to Nigerian Economy

# Unit One:

## **Introduction:**

- Physical Resources
- Financial Resources
- Human Resources

# Introduction Con't

- HR theory underscores the importance of diversity, equity, and inclusion in today's workforce, recognizing them as catalysts for innovation, resilience, and sustainable growth.

# Definition of terms

- **Human Resource** Human resources refer to the individuals within an organization who make up its workforce.
- They encompass the employees, workers who contribute efforts toward the achievement of the organization's goals and objectives.
- **Human capital** refers to the collective skills, knowledge, abilities, and experiences possessed by individuals within a workforce.
- It encompasses the intellectual assets and capabilities that individuals bring to an organization, which contribute to its productivity,

# Definition of terms

- **Human capital formation** is the process of increasing the stock of human capital through education, training, and other investments in human development.
- It involves investments in education, training, healthcare, and other factors that contribute to the development and enhancement of human resources.

# Unit Two:

- **Theory Human Capital Theory:**
- Human Capital Theory - provides a framework for understanding the economic value of human capital and the factors that influence its accumulation and utilization in the economy.
- The theory suggests that investments in education, training, healthcare, and other forms of human development can lead to increased economic output and improved standards of living.
- The basic concept of Human Capital Theory is that investments in individuals can be mathematically measured based on the economic value they are able to contribute to society

# Theory of Human Capital Human Capital Cont's

- It sees education, job training, and marketable talents as ways in which humans increase their ability to acquire knowledge and generate higher wages.
- Human capital is important because it is perceived to increase productivity and thus profitability. Therefore, the more a company invests in its employees (i.e., in their education and training), the more productive and profitable it could be.



# Unit Three:

- **Investment in Human Capital:**
- Investment in human capital refers to the allocation of resources, such as time, money, and effort, towards activities that enhance an individual's skills, knowledge, health, and abilities.
- Investing in human capital is aimed at improving future productivity, income, and overall well-being.
- The amount of money spent by individuals, companies and governments on training and education, and the time spent by participants in courses of study, serve as useful approximations of human capital formation

# Returns to Investment in Human Capital

- Human capital investment refer to the benefits or gains derived from the allocation of resources towards activities aimed at enhancing individuals' skills, knowledge.
- Benefits may be on individuals, enterprises and societies.
- Economic benefit
- Non-economic benefit

# Unit Four:

## **Problem of Human Resources:**

- High growth of population
- Brain drains/Migration
- Low level of academic standard
- Level of poverty
- Lack of proper manpower planning

# Determinants of human capital accumulation

- ❖ Education
- ❖ Training and skills development
- ❖ Parental socioeconomic factor
- ❖ Access to health care and proper nutrition
- ❖ Income and incentives
- ❖ Technological progress

# Determinants of the size and composition of the labour force

- ❖ Size of population i.e birth rate, death rate and net immigration, age and sex composition.
- ❖ Educational attainment of individuals
- ❖ Level of technology/ Productivity
- ❖ Health Status i.e rate of disability or chronic illness
- ❖ Wage Rates i.e increase in wage rate will increase size of labor force.
- ❖ Labor force participation rate of the population i.e potential labor force and actual labor force.
- ❖ Statutory entry and retirement ages
- ❖ Number of industries Available

# Unit Five: Labour Demand and Labour Supply

- **Demand for Labour:**
- Demand for labor refers to the quantity of labor that employers are willing and able to hire at a given wage rate, over a specific period
- It is made up of two sides, the demand side and the supply side.
- The demand curve for labour has a negative slope indicating that as wages rise less labour is demanded.

# Factors Affecting Demand for Labour

- ❑ The wage rate
- ❑ Productivity of labor
- ❑ Technology
- ❑ Product demand
- ❑ Demand for firm products

# Elasticity of Labour demand

- Elasticity of labour demand measures the responsiveness of demand for labour when there is a change in the ruling market wage rate.
- Elasticity of labor demand is defined as the percentage change in the quantity of labor demanded divided by the percentage change in the wage rate.



# Elasticity of Labour Demand Cont

- Mathematically, it can be expressed as:
- Elasticity of Labor Demand( $Ed$ )=  
% Change in Quantity of Labor Demanded/  
% Change in Wage Rate

# Factors affecting Elasticity of Demand for Labour

- Labour costs as a % of total costs - When labor costs constitute a large portion of total costs, the demand for labor tends to be more elastic because wage changes significantly impact overall costs.
- If labor costs are a small portion, demand is more inelastic.
- The ease and cost of factor substitution - If labor can be easily substituted with capital (machines, technology), the demand for labor is more elastic. If substitution is difficult, demand is more inelastic
- The price elasticity of demand for the final output produced by a business - If the demand for the product produced by labor is elastic, the demand for labor is likely to be more elastic, if the product demand is inelastic, the demand for labor tends to be more inelastic

# Determinants of Elasticity of Demand for Labor

- The proportion of labour costs in total costs
- The ease with which labour can be substituted by capital
- The elasticity of demand for the product produced
- The time period
- The qualifications and skills required
- The length of training period
- The mobility of labour

# Supply of Labour

- Supply of Labour - mean the various numbers of workers of a given type of labour which would offer themselves for employment at various wage rates.

# Factors Affecting Supply of Labor

- Wage Rates
- Population Size
- Education and Training
- Government Policies
- Mobility and Migration
- Technological Advancement
- Labor Market information

# Unit Six: LABOR MARKET

- It is a market where people offer their skills to employers in exchange for wages, salaries and other forms of compensation.
- It is the place where workers and employees interact with each other. In the labor market, employers compete to hire the best, and the workers compete for the best satisfying job.

# Labour in Informal and Formal (Modern) Sector

- Labour in informal sector is the part of an economy that is neither taxed, nor monitored by any form of government.
- Activities of the informal economy are not included in the gross national product (GNP) and gross domestic product (GDP) of a country.
- It is that economy in which the productive activities are neither taxed nor regulated and the values are not computed in national GDP.
- A times participants in the informal economy are seen as those who do not have employment security, work security and social security.

# Labor In Informal economy

- He has no formal contract with his employer
- He has no systematic work conditions
- He gets irregularly and unevenly paid
- He has no forum to express his grievances
- He has no fixed hours of work and mostly earns hand to mouth



# Formal Economy

- This is otherwise known as the industrial economy or the Modern economy
- It is that economy in which productive activities are wholly or partly regulated by the government

# Characteristics of Formal (Modern) Sector/Economy

- It has an organized system of employment with clear written rules of recruitment, agreement and job responsibilities.
- It has a standardized relationship between the employer and the employee is maintained through a formal contract.
- The employee is expected to work for fixed hours and receives fixed salaries in addition to incentives and packages
- The employee works under a decent work environment and is entitled to benefits such as leave, savings, loans etc.
- The employees have an organized association or union where his official grievances are addressed

# Unit Seven: WAGE DETERMINATION

- A wage may be defined as the sum of money paid under contract by an employer to worker for services rendered
- Wage rate is the price paid for the use of labour
- A wage is price, it is the price paid by the employer to the worker on account of labour performed

# Types of Wages

- Piece Wages
- Time Wages
- Cash Wages
- Cash wages refer to the wages paid to the labour in terms of money
- Wages in Kind
- Contract Wages

# Concepts of Wages

- Nominal Wage
- Real Wage

# Reasons for wage differential

- Occupational Differences
- Market structure
- Government Policies
- Inter-Industry Differences
- Inter -firm differential
- Supply and demand for labour
- Cost of living


# Unit Eight: THE CONCEPT OF UNEMPLOYMENT


- Unemployment is the situation which exists when members of the labour force wish to work but cannot get any job.
- The two broadest categories of unemployment are: voluntary and involuntary unemployment.

# Types of Unemployment

- Structural Unemployment
- Frictional Unemployment
- Cyclical Unemployment
- Seasonal Unemployment



- 
- **Structural Unemployment:** Structural unemployment comes about through technological advances, when people lose their jobs because their skills are outdated.
  - **Frictional unemployment :** this arises when a person is in-between jobs. After a person leaves a company, it naturally takes time to find another job, making this type of unemployment short-lived.

- 
- Cyclical unemployment - It is as a result of decline in the aggregate demand when the aggregate demand for a product fall.
  - Seasonal Unemployment - This is a situation in which particular workers chances of being employed are subjected to the dictates of the seasons.

# Causes of Unemployment

- Poor education
- Lack of Skills
- Technology advances
- When there are fewer jobs than applicants
- Poor government planning

# The nature of Unemployment in Nigeria

- Unemployment in Nigeria is a major problem both economically and socially
- Unemployment in Nigeria has resulted in more and more people who do not have purchasing power
- Unemployment also has social consequences as it increases the rate of crime
- The rate of unemployment within the age group of 20 to 24 years is 40 % and between 15 to 19 years it is 31 %.

# Consequences of Unemployment

- Migration
- Conflict
- Crime
- Low national industrial output
- Poverty
- Kidnapping and robbery
- Lawlessness

# References

- Borjas, George J. Labor Economics. McGraw-Hill, 6th edition, 2013. (Borjas)
- Bauer, T. and K. F. Zimmermann (1997): "Unemployment and Wages of Ethnic Germans," Quarterly Review of Economics and Finance, 37, 361-378.
- Labor Economics, 6th or 7th edition, by George J. Borjas, published by McGraw Hil