Lectures on Human Capital by Gary Becker

This series of lectures recorded during the Spring of 2010 are from ECON 343 – Human Capital, a class taught every year by Gary Becker at the University of Chicago. In this class, Becker expounds upon the theory of Human Capital that he helped create and for which he won the Nobel Prize.

In total, there are 19 lectures. Each lecture includes a short description of topics covered as well as topical keywords. The interested viewer is also provided with references to books and journal articles from Gary Becker’s own original research that bear on the topics discussed in each lecture. Additionally, the viewer is also referred to the appropriate section of a freely available and informal set of student notes. These lecture notes are provided as-is and the author, Salvador Navarro Lozano cannot accept responsibility for any typos or errors. Much of the lecture material already appears in one of Gary Becker’s academic books and those remain the best source of information in case of any doubts.

Over the years, thousands of graduate students in Economics, Sociology, Public Policy, and other fields have benefited from the teachings of Gary Becker in his Human Capital class. We hope that by providing these lecture videos and notes that people around the world can increase their own human capital and enjoy studying this fascinating subject of human capital as taught by Gary Becker.

Filmed by: Joey Brown
Lecture Summaries: Jorge L. Garcia
Lecture Notes: Salvador Navarro Lozano
Supported by: The Becker Center at the Booth School of Business at the University of Chicago
Lecture 1  
Theme: Human Capital, and Intergenerational Mobility – An Introduction

Abstract

Professor Becker introduces the course objectives and discusses the main themes covered in his class. The main course subjects covered in the study of Human Capital are: investments in education in an altruistic model, trade-offs between human capital and physical capital investments, intergenerational income mobility, investments in health, marriage markets, fertility, on the job training, specialization and the division of labor, and the division of labor and the extent of the economy.

He defines human capital as special because it is inextricably linked to a human being and cannot be separated from her; the “capital” component comes because human capital like physical capital is durable. Becker establishes the main conceptual and practical similarities (i.e. economic return, depreciation, etc.) and differences (i.e. transferability, liquidity, etc.) and similarities between human and physical capital.

In this lecture, Becker establishes how he conceives of the study of Human Capital. He says that it is a subject of Economics that ties together micro and macroeconomics. The micro element comes from the link between parents and their children and the macro element because of how human capital is a main determinant of economic growth.

Key concepts: altruism with differences in ability, division of labor, education in an altruistic model, fertility, human capital, intergenerational income mobility, investments in health, marriage markets, physical capital, specialization and the division of labor.

Main discussions:
- Lecture 1, (11:50-13:05): Professor Becker discusses how human capital is involved in the more microeconomic aspects of economic behavior within the family and in the more macroeconomic aspects of economic development.
- Lecture 1, (14:45-21:15): Professor Becker explains one of the concepts that he reinforces throughout his class: the complementary between different forms of human capital and its implications.
- Lecture 1, (31:35-1:06:00): Professor Becker draws the main similarities and differences between human and physical capitals.

Main quotes:
- “(...) we’ll try to show how by starting at the Micro we can build up a better understanding of what’s going to happen at the Macro [level].”

References:
Lecture 2
Theme: Human Capital, and Intergenerational Mobility – The basic model (part 1 of 2)

Abstract

Professor Becker models the investment in the human capital that parents make on behalf of their children. He analytically develops a simple one-overlapping generation rational choice model in which the parents can only spend income on their own consumption goods or in the human capital investment of their children. He then derives the comparative statics predictions that are implied. These results set up a discussion about intergenerational income mobility and regression to the mean in this context. Finally, he begins to discuss capital markets and their imperfections.

Throughout the discussion, Becker assumes the following: a single kind of human capital investment, one-parent household (i.e. no marriage or unisex model), and a one-child household. The parameters in this model are the altruism and the income of the parents, and the parameter that converts the human capital of the kids into earnings. Common microeconomic theory assumptions about utility and production functions are settled.

Key concepts: altruism, capital markets, capital markets imperfections, consumption goods, intergenerational income mobility, investment in human capital, one-overlapping generation rational choice model.

Main discussions:

• Lecture 2, (06:00-09:25): Professor Becker provides context for the model he develops.
• Lecture 2, (14:00-15:10, and 17:10-19:40): Professor Becker explains the meaning of parental altruism in his model.
• Lecture 2, (23:50-26:00): Professor Becker discusses why diminishing marginal returns of human capital investment is a reasonable assumption.
• Lecture 2, (29:00-30:50): Professor Becker explains how the future earnings of the kids are determined and the role played by the parameters in the function that converts a child’s human capital into earnings.
• Lecture 2, (01:01:50-01:06:50): Professor Becker starts the discussion about intergenerational income mobility and regression to the mean in this context.
• Lecture 2, (01:12:20-01:14:10): Professor Becker stresses the difference between intergenerational income mobility and income equality.

Main quotes:

• “(...) if the world was full of selfish parents we can close up this part of the analysis and go home”.

References:

Lecture 3
Theme: Human Capital, and Intergenerational Mobility – The basic model (part 2 of 2)

Abstract

Professor Becker continues to discuss the model developed in Lecture 2. He gives intuitive and technical insights about the forces that cause capital market imperfections (and how the rate of return of investment in kids is affected by these). Also, he explains the individual household and social consequences of these kinds of market failures. Afterwards, he gives some public policy recommendations with this respect.

Becker then returns to the discussion on intergenerational income mobility and explains the technical details of how it can be measured. He also contrasts the measurement of the intergenerational income mobility with the measurement of income equality.

Finally, he returns to the model developed in Lecture 2 and makes two comparative statics model: he investigates how the choice variables change when the parents experience an exogenous increase in their taste for altruism and when the parameter that converts the human capital of the kids into earnings increases.

Key concepts: capital market imperfections, income (in) equality, intergenerational income mobility, rate of return.

Main discussions:
• Lecture 3, (26:50-30:10): Professor Becker contrasts the measurement of the intergenerational income mobility with the measurement of income equality.
• Lecture 3, (38:00-40:50): in order to give an example of public policy programs that attempt to lower capital market imperfections, Professor Becker discusses Progresa-Oportunidades, a conditional cash transfer social policy program in Mexico.

Main quotes:
• “(...) The Rockefellers are still rich; I wouldn’t feel sorry for them”. (on how regression to the mean doesn’t completely wipe out wealth)
• “(...) Let me put it in a little more controversial way: richer people tend to be more altruistic than poorer people… that doesn’t sound so good, right?”
• “I’m not saying rich makes you more altruistic… I’m saying more altruistic makes you rich… maybe they are against it [people] but they don’t understand what’s going on”.

References:
Lecture 4
Theme: Human Capital, and Intergenerational Mobility – How the human capital of parents affects children

Abstract

Professor Becker introduces a new parameter in the model that he introduced in Lecture 2 and Lecture 3: the human capital of the parents. He explains in which situation this model adjusts accurately to real world situations. Thus, he begins the crucial discussion and modeling of how human capital of parents affects the human capital of their children.

Also, he defines and points out the recursive property of human capital. Then, Becker discusses the microeconomic and macroeconomic consequences of such a property.

He introduces and explains a technical and economic property of the household production function: the complementary property between investment of human capital of the kids and human capital of the parents. Furthermore, he explains how the human capital of the parents influences the rate of return of investments in human capital. Finally, he points out the implications for intergenerational income mobility in this new context.

Key concepts: complementary between human capital investment of parents and their children, human capital of the parents, intergenerational income mobility, rate of return, recursive property of human capital, rate of return.

Main discussions:
• Lecture 4, (1:10-07:50): Professor Becker explains the technical and economic consequences of introducing the human capital of the parents as a parameter of the model developed in Lecture 2 and Lecture 3. He links this explanation to the recursive property of human capital. The explanations of the microeconomic and macroeconomic consequences of such a property are done in this part of the clip too.
• Lecture 4, (09:20-11:10): Professor Becker emphasizes the properties of the household production function spanned by the human capital of the parents.
• Lecture 4, (15:10-17:40): Professor Becker explains the economic growth consequences of human capital investment in kids.
• Lecture 4, (01:02:00-01:10:00): Professor Becker analyzes the trade-off between equity and efficiency in the model developed in this lecture.

Main quotes:
• “I remember when I was going into Kindergarten… I was worried if I’ll be able to learn the alphabet (…) you worry about that sometimes.”
• “(…) every theory is tested by how well it helps you understanding the world…”
• “The production of human capital is intensive in human capital.”

References:
Lecture 5
Theme: Human Capital, and Intergenerational Mobility – Implications of the inheritance of ability

Abstract

Professor Becker explains and illustrates the differences between cognitive and non-cognitive abilities. Subsequently, he introduces ability in the model that was developed in the last lectures. He explains what happens to the choice variables of the model when ability increases.

Then, he develops a model of intergenerational transmission of ability that allows for children to inherit ability from their parents. He links this transmission process to intergenerational income mobility. Also, he explains how both of these processes behave in the context of perfect capital markets. Finally, he shows how the equilibrium inequality is measured in this model.

Key concepts: inheritance of ability, cognitive and non-cognitive abilities, equilibrium inequality, degree of inheritance, intergenerational income mobility.

Main discussions:
• Lecture 5, (10:35-15:45): Professor Becker goes through a comparative statics exercise to explain how an increase in a child’s ability affects investment in human capital.

Main quotes:
• “Every parent thinks (…) they have a genius at home… at least until the kids reach a certain age where the evidence becomes overwhelming”. (Lecture 5.1, minute 7:55-8:10).
• “People that ask more questions will learn more… that’s what students don’t realize. That doesn’t mean you should just be asking questions… it’s an equilibrium result”.

References:
Lecture 6
Theme: Human Capital, and Intergenerational Mobility – Human Capital investment within the household and bequests

Abstract

Professor Becker extends the analysis for two kids in the same framework that he works with in the previous lectures. He investigates what happens when two kids have the same ability, what happens when the two kids different abilities, what happens when the parents are more altruistic with one kid than with the other. He addresses the problem in both the perfect and the imperfect capital markets contexts.

Then, Professor Becker addresses the problem of uncertainty in the ability distribution of the kids: he explains how this uncertainty influences the parent’s decision to invest in their child’s human capital. He develops this model under an expected utility framework.

Afterwards, he returns to the single child model. Becker allows the possibility that parents can invest in other capital for their child in addition to human capital. He does not specify what kind of capital. He just introduces another kind of capital that can be an alternative for parental expenditures. Therefore, the richness of the kids, in this context, is not just determined by the human capital invested in them but also by the capital bequest that they receive in their adulthood.

Key concepts: bequests, expected utility, social planner, uncertainty, efficiency-equity trade-off, physical capital, rate of return.

Main discussions:
• Lecture 6, (04:25-5:20): Professor Becker compares the efficiency-equity trade-off that parents carry on when the abilities of their children are different with that the government faces when implementing public policy and choosing taxes for citizens.
• Lecture 6, (43:25, 44:45): Professor Becker continues the previous discussion.
• Lecture 6, (01:14:05-01:16:40): Professor Becker illustrates graphically the decision between parental investment in human capital and parental investment in physical capital and the returns received by both of these decisions.

Main quotes:
• “Parents make compromises when investing in their differently abled children… they face a trade-off as the government does when trading-off between taxing people [in order to achieve equity] and the dead-weight loss that results”.

References:
Lecture 7
Theme: Human Capital, and Intergenerational Mobility – Overlapping generations model

Abstract

Professor Becker introduces an extension of the model that allows for two overlapping generations. In this model, parents choose their consumption of goods in two periods, their choice of human capital investment for their children, their choice of investment in physical capital, and the bequest that they give to their children when their reach adulthood.

As in previous lectures, Becker uses a rational choice model with the aforementioned choice variables. However, in this case the parents have two budget constraints: one for each of the overlapping periods. He explains the connection between the choice variables in each of the overlapping periods and describes technically and intuitively the characteristics of the model. The income of the kids when they become adults, in this case, is determined by the human capital investment made in them and by the bequest that parents give them when they become adults.

The consequences for intergenerational income mobility caused by the bequest left by parents do not appear in class but they are discussed in the suggested references.

Finally, Professor Becker develops the preference transmission model that is discussed in his Nobel Prize Lecture. This model is an extension to the previous model in which parents are able to invest in “guilt (preference) transmission” so that children will be guilted into supporting their parents when they are older.

Key concepts: bequest, consumption goods, degree of altruism, parental income, lifecycle discount factor, preference transmission, guilt.

Main discussions:
• Lecture 7, (24:35-36:00): Professor Becker explains the context of the two overlapping generations model.
• Lecture 7, (53:15-55:00): Professor Becker discusses the welfare reasons and consequences of the fact that parents cannot leave debt to their children.
• Lecture 7, (57:40-01:16:15) and Lecture 7.4 (01:16:10-01:19:10): Professor Becker develops the preference transmission model that exposed in his Nobel Prize Lecture.

Main quotes:
• “(...) children’s guilt towards their parents… they call it love”.

References:
Lecture 8
Theme: Investment in Schooling and Training (includes discussion of preference transmissions)

Abstract

In the first hour of the lecture, Professor discusses the preference transmission model that he discussed in his Nobel Prize Lecture. However, in this lecture he deepens the analysis: he offers necessary and sufficient conditions for “investment in guilt to happen”, he points out the plausibility of corner solutions in some of the choice variables, and he goes through the insights offered by the first order conditions of this rational choice model.

Then, he turns into what he calls a “much more traditional human capital problem” by introducing investment in education. He proposes a model in which the individuals face the decision whether or not to go to college. In this model, the individuals compare the lifetime earnings differential of going to college versus the foregone earnings plus the tuition costs. The ratio of the benefits with respect to the costs is defined as the return of going to college.

Key concepts: bequest, foregone earnings, investment in guilt, lifetime earnings differential, returns to education, schooling decisions.

Main discussions:
• Lecture 8, (00:00-01:02:50): Professor Becker develops the preference transmission model that is discussed in his Nobel Prize Lecture.
• Lecture 8, (30:00-40:40): Professor Becker set ups the context in which he analyses the investment in education problem.

Main quotes:
• “You arrive at age 18 with a certain amount of human capital (…) maybe that’s why it’s such a free game to blame your parents for anything”.

References:
Lecture 9
Theme: Investment in Schooling and Training (and stylized facts about the labor market)

Abstract

Professor Becker continues to discuss the model of investment in education introduced in the previous lecture. In this lecture, he carefully lists, describes and analyses each of the parameters involved in the decision that individuals make when going or not to college. He also works through some comparative statics exercises about these parameters.

In this lecture, Becker also discusses a number of stylized facts about the labor market for man, women, and minorities including participation rates, wage differentials and how these have changed over time.

Key concepts: discount factor, foregone earnings, lifetime earnings differential, life expectancy, return to education, basic facts about the labor market.

Main discussions:
- Lecture 9, (09:50-10:55): Professor Becker discusses the decision to invest in education.
- Lecture 9, (49:05-54:30): Professor Becker discusses the discrimination against women in the marketplace.
- Lecture 9, (01:14:00-01:24:25): Professor Becker discusses the development of the wage differential between men and women in the 20th century.

References:
Lecture 10  
Theme: Investment in Schooling and Training

Abstract

Professor Becker continues to elaborate on the decision to attend college. He also discusses hypotheses for why the cost of tuition has risen. Becker then discusses the consequences of this rise in tuition and how it affects the cost functions of different industries. He explains why many people misunderstand the causation of the rise in tuition and illustrates what he believes are the correct forces. He discusses how the recursive property of human capital is present in this context. Also, he explains why students have a better deal in these days than they had in the past. He questions if college subsidization causes a progressive taxing structure. He claims that the benefits of going to college are mostly private ones and illustrates why there are not large externalities associated with college education.

He gives a theoretical and an empirical discussion about the college/high school wage gap in the U.S. He offers facts of other developed and developing countries as well. He also discusses the extremely negative consequences of dropping out of high school: “high school drop outs are socially condemned in almost every dimension”. Finally, he explains why people drop out.

Key concepts: benefits of going to college, high school drop out, externalities from education, sheepskin effect, subsidies to education, rising cost of college tuition.

Main discussions:
- Lecture 10, (13:15-09:40): Professor Becker discusses the misunderstandings about the causes of the rise in tuition and gives some insights about the recursive property of human capital in this context. Also, he discusses issues about subsidies and externalities in the context of investment in education.
- Lecture 10, (17:40-24:00): Professor Becker recommends some public policies in order to get more people to finish high school in an efficient way.

Main quotes:
- “You have an increase not only in the earnings of college graduates relative to high school graduates but you have an increase in the net benefits… the rate of return … of the college education, despite the increase in tuition. So, I don’t feel sorry for the students who have to pay this higher tuition”.

References:
**Lecture 11 and Lecture 12**

**Theme:** Investment in Schooling and Training – Non-monetary benefits of human capital, health, and marriage

**Abstract**

Professor Becker explains the limitations of the previous model that tries to explain the decision of going to college. Then, he models the decision of education investment in a more general way with a utility maximizing rational choice model.

He offers a two period uncertainty model in which agents invest in their human capital in the first period. He explains how this model can be generalized to N periods. He explains how the human capital that the agent has affects the probability of surviving to the next period.

Based on this model, he reinforces the idea of the complementary property between different forms of human capital. Professor Becker also shows how the incentives to invest in education are affected by the probability of surviving to later periods in life. These lectures show how more educated people also have better non-monetary outcomes.

Finally, Professor Becker explains why education improves marital prospects and why education improves family earnings. He introduces the gains from marriage to this model.

**Key concepts:** family earnings, full income, leisure, life expectancy, marital prospects, probability of surviving.

**Main discussions:**

- Lecture 11, (06:00-09:15): Professor Becker discusses one of his favorite pieces of data on life expectancy and education. He explains how this data evidences that educated people live longer in Russia and Estonia. Also, he claims that this data reveals that educated people fare better through chaotic times.
- Lecture 11, (13:10-15:05): Professor Becker explains why the returns to college look similar for men and women if the data is correctly interpreted.
- Lecture 11, (43:40-45:00): Professor Becker explains why college students take a lot of leisure.
- Lecture 12, (14:15-19:35): Professor Becker discusses the health effects on education and vice versa. He gives some evidences about the differences of these effects across women and men.
- Lecture 12, (42:30-45:50): Professor Becker explains the economic returns from studying the liberal arts.

**Main quotes:**

- “Education improves you marital prospects … and more educated people tend to marry other more educated people.”
- “If you look at anything… educated people are better at it… anything that’s considered good…. adaptation to the iPad, is something new (…) I got one (…) I think it’s a great piece of equipment.”
• “Education helps you to adapt better to new environments.”

References:
Lecture 13
Theme: The New Economics of Mortality – Investments in health

Abstract

Professor Becker goes over the model that he briefly introduces during the end of Lecture 12. This is a model of investment in health as human capital, *per se*. He models this investment process using expected utility maximization in a two period context. The choice variables in the framework he develops are consumption goods, leisure, and health.

Again, he explains the technical and economic reasons and consequences of the utility levels appearing in the first order condition in this case of value of life problem. He explains which are the costs and the benefits the agent faces in this context. Also, Professor Becker explains why people so infrequently buy annuities.

Finally, Professor Becker explains the concept of Statistical Value of Life and gives some examples of how to calculate it for the U.S. and other countries.

Key concepts: consumption goods, convex cost function of health investment, leisure, statistical value of life, utility levels.

Main discussions:
- Lecture 13, (07:15-12:50): Professor Becker explains which are the costs and the benefits that the agent faces in this context.

Main quotes:
- “There’s a lot of wealth that older people have that is not annuitized… why is that? Well, one explanation is that these people are leaving bequests and that is cheaper to have your children take care of you than to buy [actuarially] unfair insurance.”

References:
Lecture 14
Theme: The New Economics of Mortality – Investments in health and the Statistical value of life

Abstract

Professor Becker continues to discuss the health investment problem and the Statistical Value of Life. Then, he develops a three period expected utility maximizing problem of investment in health which explicitly makes a difference between the conditional and the unconditional probabilities of surviving.

Then, he explains how the investment in health in one period impacts the unconditional probability to survive in further periods, even when investment in health only determines the conditional probability of surviving to the second period. As a consequence, he explains, it is more efficient to invest in good health during young ages; also, he explains the economic and demographic importance of health investments.

Also, he explains the time consistency issues in this kind of problem and why the agent’s utility maximizing problem takes the unconditional probability of surviving as opposed to the conditional one.

Key concepts: conditional probability of surviving, diminishing returns on health spending, health investment, investment in health during young ages, statistical value of life, unconditional probability of surviving.

Main discussions:
• Lecture 14, (45:10-47:10): Professor Becker explains how the investment in health in one period impacts the unconditional probability to survive in further periods, even when investment in health only determines the conditional probability of surviving to the second period.
• Lecture 14, (45:10-47:10): Professor Becker explains why it is more valuable to invest in health during younger ages.
• Lecture 14, (52:40-57:15): Professor Becker shows the benefits of investing in health in a generalized model with n periods of life.
• Lecture 14, (48:10-51:05): Professor Becker gives his opinion about what the health priorities should be in African countries where AIDS is a major issue.

Main quotes:
• “Other things the same it is rational to go first (invest in health as human capital) for the early ages”.
• “By raising your conditional probability of surviving to early ages you are also raising your unconditional probability of surviving to later ages”.

References:
• Salvador Navarro Lozano. Notes on Gary Becker’s Human Capital and the Economy. pp. 21-25
Lecture 15
Theme: The New Economics of Mortality/Marriage Markets

Abstract

Professor Becker returns to the model developed in Lecture 13. However, he extends the model in a way that allows two different kinds of investment in health. In particular, he deals with a case where people can spend in consumption goods, leisure, investing in preventing cancer and investing in preventing cardiovascular diseases. Then, he shows what happens with the spending in each of the diseases when medicine progresses in fighting one of the diseases. These models of health spending on different classes of disease have important consequences for how funding for drug research is allocated and the health care decisions that individuals take.

Next, Becker shifts attention to the study of marriage markets. He develops a model of matching and he explains how sorting happens in different contexts. He stresses out how education influences the marriage results. At the end of the lecture, Professor Becker discusses how the investment in kids behaves in these kinds of mode and why the marriage markets do not produce a zero sum game.

Key concepts: consumption goods, convex cost function of health investment, leisure, matching, marriage market, positive sorting by education, sorting, statistical value of life, utility levels, polygamy in marriage markets.

Main discussions:
• Lecture 15, (18:40-25:45): Professor Becker shows what happens with the spending in each of the diseases when medicine progresses in fighting one of the diseases.
• Lecture 15, (29:50-31:10): Professor Becker explains the positive sorting by education of men and women when they marry.
• Lecture 15, (52:00-54:30): Professor Becker analyzes the marriage market outcomes form a social planner’s point of view.
• Lecture 15, (01:13:25-01:16:20): Professor Becker explains why marriage markets are not a zero sum game.

Main quotes:
• “One of the gains of increasing your education is that you improve your marital prospects”.
• “More educated people are more likely to marry… more likely to stay married and (…) there is strong positive sorting by the education of men and women”.

References:
Lecture 16
Theme: Human Capital and Specialization (includes on-the-job training and learning by doing)

Abstract

In the first part of the lecture, Professor Becker continues to discuss the model developed in the last lecture about the marriage markets. He gives some more insights and conditions for possible results in it.

Afterwards, he introduces the concept of on-the-job training. He develops a model in which people finish school, go to the marketplace, and then receive on-the-job training. He answers who pays for the on-the-job training under different market and industry structures. Also, he explains why employees may be interested in investing in their own human capital while they are working. He goes through each kind of job training (firm specific, industry specific, general training, etc.) and explains under what circumstances the employee or the employer is likely to pay for it.

His model does not explicitly differentiate between learning by doing and investing in education while working because he claims that the conclusions are basically the same.

Key concepts: explicit training, firm specific training, learning by doing, matching, industry specific training, marriage market, positive sorting by education, on the job training, sorting, statistical value of life, specific training, utility levels.

Main discussions:
• Lecture 16, (09:20-11:10): Professor Becker explains graphically and intuitively the process of on-the-job training.
• Lecture 16, (15:45-18:25): Professor Becker explains graphically and intuitively how learning by doing can fit into an economic framework.

Main quotes:
• “If you look at a group of people coming out of college, they look similar. But after 20 years of work, they will look quite different.”
• “There is no such thing as a free lunch…sometime the cost of the lunch is hidden…somebody may take you out for lunch and pay for it, but it doesn’t make it a free lunch necessarily…you have to look for where the cost comes from.”

References:
Lecture 17
Theme: Human Capital and Specialization – Comparison with the Roy Model

Abstract

Professor Becker develops a model of job specialization and labor division. He stresses the importance of labor division because of the increasing returns to scale on this type of activity. He analyzes the problem of specialization using a model in which individuals are identical ex-ante and try to maximize the total output of the activities they perform.

Becker provides examples that show the great efficiency that result from division of labor and job specialization. Also, he stresses the wastes that society suffers when individuals have to perform labors in activities in which they are not experts as opposed to activities in which they are.

Professor Becker explains the differences between his model and the Roy Model commonly used in Labor Economics and explains how both models are helpful depending on the context. He illustrates what Adam Smith’s quote about “the division of labor is limited by the extent of the Economy” means in the context of specialization. At the end, Becker argues that specialization or division of labor is clearly beneficial to modern economies as well.

Key concepts: specialization, division of labor, increases returns to scale on specialization, Roy Model.

Main discussions:
• The entire lecture is crucial because is a very big theme to be developed in just one class.

Main quotes:
• “The basic factor that drives specialization is increasing return to scales”.
• Example of how even Michael Jordan needs to specialize [Lec 17 pt 2: 14:08-15:49] “You have to work on and invest in your skills … Michael Jordan was a great athlete and played basketball for a long time, but then he thought he could be a great baseball player. So he quit after great success in basketball and went into the minor leagues for a few years and try to make a second career as a baseball player… and, he basically failed completely. And now he surely had great skills and maybe if he had started at baseball in high school and college instead of specializing in basketball, maybe he would have gone on to be a great baseball player. Even when he went back to playing basketball, it took a while to regain his old form… so that shows why you have to invest in skills.”

References:
Lecture 18  
Theme: Human Capital and Specialization  

Abstract

Professor Becker continues to discuss concepts of the specialization and the division of labor problem. He also gives insights and develops economic models that explain social specialization. However, in this lecture he also introduces concepts such as coordination costs, marriage, and teamwork. He explains when and why the agents of the economy will work together.

Also, he explain how differences in personal abilities and how the tasks’ difficulty affect the social outcomes. Professor Becker talks about the importance of the market as a coordinator of economic activities. He talks about communication, complementary skills, and entrepreneurship as basic concepts in the understanding of modern economies.

Key concepts: complementary skills, communication, coordination costs, division of labor, entrepreneurship, specialization, teamwork.

Main discussions:
• Lecture 18, (12:25-13:35): Professor Becker explains the importance of the division of labor when the number of tasks of the economy increases.
• Lecture 18, (17:45-18:35): Professor Becker discusses people’s choice of research topics and how any topic can be interesting – “within broad limits”.

Main quotes:
• “People start out identical … it doesn’t matter that much what people end up doing. Somebody ends up becoming a doctor, another person a lawyer, and another person an economist. Now the equilibrium requires that and they might think it matters, but fundamentally it doesn’t matter that much. That’s the model we have.
• “Intrinsic differences isn’t the name of the game when you look at specialization… it’s what people do to themselves through investments and so on that really matter.”

References:
Lecture 19
Theme: Human Capital, Fertility, and Growth

Abstract

Professor Becker presents a model that studies the interaction between fertility and human capital investment. His model is a rational choice one in which parents choose to spend their income in consumption, number of children, and human capital per child.

He explains how parents’ make their decisions and explain how the shadow prices of the choice variables involved in this problem span a convex budget constraint. Professor Becker explains why the value of time has grown as countries have developed and how this has to do with the endogeneity of the shadow prices of the choice variables.

Key concepts: convex budget constraint, endogenous prices, fertility, human capital investment, shadow prices.

Main discussions:
• The entire lecture is crucial because is a very big theme to be developed in just one class.

Main quotes:
• “Over time, as countries have developed, human capital went up and so did the value of time”.
• “As countries begin to grow, their fertility goes down a lot. It’s amazing that within such a short period of time, you could see such dramatic changes in such a fundamental decision – how many children to have... 45% of the world’s population now lives in a country with below replacement fertility.”

References: