

Abstract

Education remains a topic of prime importance for evaluating the growth potential of a developing country such as, India. The primary reason for education occupying such a pole position in all development literatures is because of the fact there is a positive correlation between the years of education attained and the skills/efficiency of an individual. In the macroeconomic growth literature, Krueger and Lindhal (2001) showed that education is positively associated with economic growth for a country, a result well supported by many previous studies as well. It must however be noted that while most studies would aim at estimating the relationship between economic growth/productivity and education, individuals base their decision on the optimal amount of education acquired on their private marginal cost-benefit analysis of the returns to education. Our work, mainly inspired by this theme finds that there is a positive correlation between education and wage earned. We have used a Random Effects model for this purpose, as it is clear that in spite of the variables that we have accounted for, there remain variables such as Skill, Tenacity of an individual, which can significantly affect wages, but cannot be accounted for.