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## MARKET RELATIONS IN EDUCATION AS THE FACTOR, WHICH HAS IMPACT ON THE QUALITY OF HUMAN CAPITAL

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**JEL Classifications:** I2, J24

**Key words:** Market relations in labour market, demand and supply of education, labour market, quality.

**Abstract:** Market relations in Latvian economy increasingly develop in the field of education. Education becomes a special product and people must know how to sell and how to buy it. Graduates' ability to fit labour market requirements is an important indicator of education quality. Consequently, the education product should meet labour market requirements. Market research data show that employers, education institutions and students have different visions of what the labour market requirements are.

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### Introduction

During the last 20 years, fast changes came about Europe and the world, affected by the progress of science and engineering as well as the globalization process. Sustainable growth of information technologies, increase of share of service sector in gross domestic product, development of science-intensive industries bring forward new demands in the field of human capital development.

Educational institutions work out new curricular/study programs that provide awarding of specific qualification level and profession. On the one side we observe increasing demand to acquire good education and competitive profession that give a guarantee in the labour market. On the other side, the numbers of educational institutions are growing willing to meet this demand.

Education becomes an exclusive product which needs to be accordingly offered and purchased in a way that gives possibility to the customer to use this product further with maximal efficiency. Overwhelming choice of curricular was offered, but their economic expediency and usability was not always effective. The content of education more often than not, does not ensure neither fair professional background, mental age of graduates, nor readiness to adapt to variable demands of labour market.

The development of human capital largely depends on education institutions which performance conditions successful development of state, self-governing, public organizations, and private enterprises. Labour market, in its turn, sets up its own demand regarding human resources it wants to receive from educational (mainly from professional and higher educational) institutions. For that reason, the paper aims to describe the economic aspects of the field of education.

### Economic development of education

The term "education" may be described in various aspects:

- as amount of knowledge, abilities and skills which human acquires;
- as the personality development process;
- as the economic sector in which definite part of inhabitants are engaged, building their own investment in the gross domestic product.

Education started to hold ever greater proportion in the structure of gross domestic products. Professional and higher educational institutions began to follow principles of economic theory, where demand results in supply. This is evident from rapid increase of the number of private higher educational institutions.

This way, the service of education can be understood as the totality of knowledge, skills and acquirement. The totality of all above-mentioned components further is used in order to satisfy needs of individual, society and state.

The service of education satisfies information needs, satisfies intellectual needs and needs of mental age, creates conditions for personality self-realization, creates ability to acquire professional work and qualification. The service of education provides labour force reproduction. The more one uses service of education, the greater amount of knowledge, skills and quality of labour force the one has. The quality of results also depends on the work amount invested by educated person.

Therefore, it is unable to put sign of equality between the complex of offered service of education and totality of knowledge, skills and acquirement. That is why the product of education institutions is the service of education, not the totality of knowledge, skills and acquirement. It means that education started to play ever more important role in the economy. Due to the specificity of activity, it started to demand special approach in the development of market relations.

### Education economics in the conditions of free market

Education economics may be defined as science that studies relations that develop in the process of production, allocation, substitution and consumption of benefits produced in education. It studies movement of material resources that are directed to provide extended reproduction of qualified labour force through education system (Belyakov, 2002).

Education economics as the subject of the research is specificity of the production power and production relations that practice with the rendering of services in the field of education meeting society and persons needs in the conditions of limited resources. It studies and identifies the characters of economic rules in the field of education.

Daniele Checchi (2006) notes that the choice of education is also the investment in future and the possibility

to change current income for better and bigger income in future. It is in the same way like one buys product today and it allows him to gain benefit in future. Here is the analogy between physical capital and human capital. The only difference is that value of human capital has been added and increased and it is not marketable. Physical capital may be sold, in the event of decline even in minor market for reduced price. However, human capital is stored up during all humans' life and it cannot be sold.

As it is known, all markets are mutually interconnected. Businessperson who acts in commodity market, develops production and trade. He also will focus on labour market, where he will buy labour resources, and as well he will focus on capital market in order to gain fund for the purchase of production factor. Thereby there is whole market system in the economic, which components are in definite interaction with each other (Olevskis, 2007).

In the labour market, the main economic agents are employers who represent households. Labour is a kind of commodity. The object of the deal in the labour market is hired worker's working hours and his working capacity, that is, totality of quality including physical and intellectual ability and skills which are gained during the learning process and practice. The totality of these requirements represents human capital (Peterson, 1997).

The value of person in the economical processes depends on education and qualification that is determined by his economical productivity.

Characters of education service:

- a. It is hard to assess fully - humans' rationalism is limited and the receiver of the service of education cannot fully assess the costs and benefits of available education, as it happens in youth.

- b. Connected with the factor of confidence - because consumer cannot fully assess its quality during the service. He has to trust the information provided by educational institution.
- c. The factor of uncertainty - during the decision-making process and during the moment of signing of an agreement, customer has not information about the value of available education.
- d. Studios are not only consumers of the service, but also they become the production factor of educational institution. It means that studios themselves make "the space of education" with their level of already acquired education, culture and value in a particular educational institution.

Therefore, education market has to "produce" products with qualities that are marketable in the labour market and that may be "sold" for higher price.

### Human capital as the final product of the education system.

Rapidly changeable and globalized market brings forward new requirements to the final product of the education system. New business environment expects individuals with the possibility to change rapidly, to adapt in unusual environment, to make do nontraditional manipulations, to work in team and stress stability. Yet existent assessment system in the educational institutions that mainly orients to the particular subject cannot ensure effective realization of this approach. Therefore there is topical issue about the 'final product' of the educational system and its quality measurement possibilities.

TABLE 1. THREE ESSENTIAL COMPETENCES FOR EMPLOYEES IN THE POINT OF VIEW OF EMPLOYERS, EMPLOYEES AND TEACHING STAFF ON THE 2007

Employers	Employees	Teaching staff
Motivation for work	Education correspondence to position and actual skills	Education (Theoretical knowledge)
Communication ability	Working experience	Actual position skills
Professionalism	Communication ability	Working experience

Source: EU research of labour market "Program adequacy of professional and higher education to the requirements of labour market".

In order to assess the quality of Latvian professional and higher educational institution final product (the graduate), the big research was carried out during 2005 until 2007 "The program adequacy of professional and higher educational institutions to the requirements of the labour market. The most important task for this research was to define more significant knowledge, skills and relations of employee, in order to successfully promote them on the labour market.

Within the framework of the project, three target groups has been defined for the profound research of the issue: employers; employees; teaching staff (representatives of the professional and higher educational institutions)

During the focal group interviews of employers, employees and teaching staff, opinion about the knowledge of employers, skills and relations of all three target groups has been established (Table 1).

Evidently, employers and employees think that communication ability is one of the most necessary abilities on labour market. However, the teaching staff think that education and actual position skills are very important characters. The research survey demonstrates that teaching staff do not accentuate on the development of comprehensive competence. Employees' motivation and desire to work is very important for employers.

In order to clarify what kind of skills are important in labour market, and who is a consumer of education final product, 20025 inhabitants in Latvia were surveyed. The survey shows that professional skills, employees' attitude to work and ability to work in social environment have an important role. Within the framework of the research, professional skills takes third place among 18 offered. Important place takes also the ability to work in team, to plan and organize own work, ability to adapt and work in new situations.

Consequently, customer must receive a qualitative service of education, that meets changeable requirements of labour market, what is prescribed by the theory of human capital.

### **Conclusions**

Education as economic sector, that gives investment in GDP, was researched very little in Latvia.

Passageway of education field to market economy principles makes education as the kind of service.

In the condition of market economy, all markets are mutually connected and education market provides other fields with human capital.

The quality of human capital affects the product quality produced in other economic sectors.

Researches carried out in Latvia allege that quality of the education product are evaluated by considering not only professional skills, but also employees' attitude and motivation to work.

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