

A causality analysis between human capital and technology change in Albania

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Abstract

Following a long period of high economic growth, in the last quarter of 2008 the Albanian economy slowed down – and this trend has continued up to now. To achieve the previous performance Albania needs a new economic model – investing heavily in technology adoption, innovation and human capital (Fullani, 2012). Economists have suggested various channels through which human capital can affect economic growth. The first channel is when human capital is a direct input in the production function and the second channel is when the human capital affects the technology change parameter. So, it is clear that a lack of educated people may reduce economic growth, but it is unclear whether a more educated workforce will cause economic growth in Albania. In this paper, we have investigated a causality relationship between human capital and technological change in Albania for a period of 32 years from 1983 up to 2014, through the application of Engle and Granger (1987) co-integration technique and by using the Vector Error Correction Method. The results of the Engle and Granger (1987) co-integration test indicate that a long run relationship exists between gross enrolment rates in higher education (a proxy for human capital) and TFP (a proxy for technological change) in Albania. Policy implications arise as to the importance of human capital deriving from the role of gross enrolments rates in higher education to TFP in the long run equilibrium.

Keywords: economic growth, higher education, TFP, Granger causality, VECM.

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