

ABSTRACT

This research aims to analyze and examine the impact of human resource investment toward economic growth in Central Java. The human resource investment consists of investment on education and health which would have effects on human capital development, then the human capital development will affect in economic growth.

The study applies Two Stage Least Squares (2SLS) approach along with the simultaneous equation model. This study uses panel data which includes cross section of 35 residence/municipalities and time series of 5 years from 2008 to 2012 in Central Java.

The results show that some proxy of educational variable such as years of schooling, primary educational attainment, and economic growth has significant and positive effect on human capital development. In contrast, secondary and tertiary educational attainment has negative and insignificant relationship with human capital development. This term is a paradox in economic development supported by some previous researches. The same case also occurred in the investment of health; that is per capita consumption has no significant and positive relationship with human capital development. However, human capital development has positive relationship to economic growth. Hence, an improvement of human resource quantity and quality is necessary to enhance and support the economic development in Central Java.

Keywords: economic growth, human capital, education, health.