

ABSTRACT

Human capital theory suggests that education can contribute to economic growth. However, empirical evidence shows mixed positive and negative relationships between educational investment and economic growth. Meanwhile, there is little literature devoted to the impact of educational investment on economic growth in transition economies and most studies ignore the moderating effect of institutional quality, which may lead to biased conclusions and leave an important research gap on this theme.

This thesis develops an extended MRW model based on the endogenous growth theory and uses the System GMM method to estimate the impact of educational investment on economic growth and the moderating effect of institutional quality in 22 transition economies from Europe and the former Soviet Union over the period 2002-2020. The research finds that educational investment can promote economic growth in transition economies and some dimensions of institutional quality have the moderating effect on the impact of educational investment on economic growth. Specifically, government efficiency and control of corruption have a positive moderating effect, while regulatory quality and rule of law have insignificant moderating effects. Finally, based on the empirical results, this thesis makes several recommendations for educational investment policies in transition economies.

Keywords: Educational Investment; Economic Growth; Institutional Quality; Human Capital; GMM