

ABSTRACT

Knowledge capital has significantly increasing importance in modern economics for growth and development. Different economists have been emphasizing on the importance of knowledge capital and have included this aspect in their studies. Many economies (such as East Asian economies) have transformed into the developed economies by focusing on the knowledge capital.

This study also tends to examine the role of knowledge capital in modern economics. However this study differs from previous studies in a way, that it examines not only the role of knowledge capital in up raising the standard of living but also focuses on the role of knowledge capital in reducing income inequalities. This study overviews the previous literature regarding knowledge capital and come up with the empirical findings. For this purpose, the data for the time period 2000-2014 is selected for 17 cross sections.

In order to capture the role of knowledge capital on enhancing the standard of living and reducing income disparities, two different models are run incorporating knowledge capital as independent variable. For knowledge capital, proxies (high technological exports, education expenditure and expenditure on research and development) are used. In order to avoid omitted variable problem, certain controlled variables (such as expenditure on health, foreign direct investment, labor force participation rate, inflation, gross capital formation and life expectancy) are also used. The study has used GDP per capita as a measure for standard of living whereas Gini index is used as a measure of level of income inequalities.

Model for standard of living is run using panel corrected standard error (PCSEs) technique where as model for income disparities have applied two stage least square method. Empirical findings show that knowledge capital has a positive impact on standard of living; increase in knowledge capital (in this study high technological exports, expenditure on education sector and expenditure on research and development), raises the standard of living and simultaneously independent variables (knowledge capital) can be used to reduce income inequalities among the people.