

## **ABSTRACT**

*Human capital theory views education as an investment that can increase individual capacity and productivity. However, educational disparities and income inequality remain challenges in labor development in Eastern Indonesia (KTI). This study aims to analyze the rate of return on educational investment and the factors that influence labor income in Eastern Indonesia (KTI) in 2023.*

*The data used is from the 2023 National Labor Force Survey (Sakernas). The estimated rate of return on educational investment was calculated using the Mincer model and the Two-Step Heckman Method procedure to correct for sample selection bias.*

*The results show that education, work experience, monthly working hours, region of residence, gender, employment sector, and employment status have a positive and significant effect on income. Work experience increases income, but at a certain point it experiences a decline (diminishing returns) with a peak at 29.24 years of work experience. In addition, workers in urban areas, males, the non-agricultural sector, and the formal sector tend to earn higher incomes. The findings also show the existence of a sheepskin effect, reflected in the increase in coefficient at each level of education. The highest rate of return on education investment is found at the university level (7,83 percent), while the lowest is at the elementary school level (0.35 percent). The rate of return on education investment increases at higher levels of education.*

*Keywords: Human Capital, Mincer Model, Sheepskin Effect, Return on Investment in Education, Heckman Method*

