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Sample Preview of the Solved Sample Question Papers

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QUESTION PAPER

June – 2023

(Solved)

ECONOMICS OF GROWTH AND DEVELOPMENT

M.E.C.-4

Time: 3 Hours] *[Maximum Marks: 100*

Note: *Attempt questions from each section as per instructions given.*

SECTION–A

Note : Answer the following questions from this Section:

Q. 1. Distinguish between economic growth and economic development. Discuss the important indicators of economic development.

Ans. Ref.: See Chapter-3, Page No. 4, Q. No. 2, Chapter-12, Page No. 84, Q. No. 1 and Q. No. 2 and Q. No. 3

Q. 2. Critically examine the Kaldor's model of economic growth.

Ans. Ref.: See Chapter-4, Page No. 25, 'Kaldor's Model of Economic Growth'.

Q. 3. Give a brief description of the Ramsey growth model.

Ans. Ref.: See Chapter-7, Page No. 42, 'The Ramsey Model of Growth'.

Q. 4. What is meant by export-led growth? Critically examine the growth strategy of India in the context of external trade.

Ans. Ref.: See Chapter-22, Page No. 155, 'Trade Strategy Export Led Growth'.

SECTION–B

Note : Answer the following questions from this section:

Q. 5. Give a brief analysis of the linkages between poverty and inequality in income distribution.

Ans. Ref.: See Chapter-11, Page No. 66, 'Poverty and Inequality'.

Q. 6. Bring out the salient features of Schumpeter's model of economic growth.

Ans. Ref.: See Chapter-17, Page No. 117, 'Schumpeter's Theory of Capitalistic Development'.

Q. 7. What is meant by vicious circle of poverty? Suggest measures to break the vicious circle.

Ans. Ref.: See Chapter-18, Page No. 121, 'Vicious Circle of Poverty' and Page No. 122, 'Methods to Break the Vicious Circle'.

Q. 8. Describe the demographic transition in developing economies. Highlight the importance of population policy in this context.

Ans. Ref.: See Chapter-13, Page No. 87-88, 'Theory of Demographic Transition' and Page No. 92, Q. No. 9.

Q. 9. Critically examine the Prebisch-Singer-Myrdal thesis on terms of trade of developing economies.

Ans. Ref.: See Chapter-22, Page No. 155, 'Prebisch, Singer-Myrdal Thesis.'

Q. 10. Define total factor productivity. What are the methods of measurement of total factor productivity?

Ans. Ref.: See Chapter-5, Page No. 33, Q. No. 4 and Q. No. 5.

Q. 11. Discuss the implications of risk and uncertainty in rural credit markets.

Ans. Risk and uncertainty in rural credit market has various implications. Risk and uncertainty can lead to low levels of technology adoption, particularly where resources to help farmers deal with risk, such as insurance, are not available. However, rural communities have developed many informal mechanisms to cope with risk. For example, households may buy or sell assets in response to fluctuations in income, and communities may temporarily assist households experiencing a negative shock to their income (e.g. unexpected medical expense), with the expectation that the household will do the same for others in the future. While these strategies are useful, in many cases they are insufficient. In particular they are poorly suited to offset the voluntary risks of adopting a new agricultural technology. Even within a household, research has shown that differences in the riskiness of crops grown by men and by women affect the consumption patterns of the household. This exposure to risk and uncertainty within the household can increase the effect of gender on an individual's ability to take advantage of a new technology.

Weather and other environmental factors, supply and demand (prices), and input and output networks. How these factors affect adoption decisions depends on attitudes toward risk and uncertainty – whether farmers are averse to risks and whether they respond consistently to probabilities. Behavioural economics research has made substantial progress in detailing the ways in which individual decisions are biased in situations characterized by risk and uncertainty. For example, if individuals care more about losses than they do about equivalent gains, then they may disproportionately prefer not to adopt a technology that offers the possibility of a loss. Some evidence suggests that these theories may be useful in explaining adoption patterns for new agricultural technologies.

In addition to the risks inherent in agricultural production, new technologies often bear specific risks, such as uncertainty about how to use the technology correctly and how to market the output. In particular, crops that are bound for export markets may carry quality or production standards that create more risk for farmers, which may contribute to low levels of adoption of export-oriented crops. A randomized experiment with agricultural credit in Kenya demonstrated the underlying, systemic nature of risk in export markets, when the export market collapsed due to unmet quality controls by the importing countries. A lack of coordination and enforceable contracts further deters adoption in these circumstances. This problem cuts both ways, however, and greater risk and uncertainty impedes coordination and makes contracts more difficult to enforce.

Q. 12. Write short notes on the following :

(a) **Theory of social dualism**

Ans. Ref.: See Chapter-18, Page No. 125, 'The Theory of Social Dualism'.

(b) **Lewis' model of development**

Ans. Ref.: See Chapter-18, Page No. 130, Q. No. 8.

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Sample Preview
of
The Chapter

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ECONOMICS OF GROWTH AND DEVELOPMENT

ECONOMIC GROWTH MODELS-I

Introduction to Economic Growth

1

INTRODUCTION

Growth is a way of life. None of us wants to stay at the same level of standard of living. Each one of us puts best of his effort to grow economically and have a better standard of living. Even if, we look around us, majority of the families are enjoying better standard of living than what they had been enjoying 20 years ago. Process of growth is compared with the cake and it is said, "Reduce the consumption of cake today to increase the size of cake itself." Moreover, economic growth does not only mean increase in quantity but also in quality and variety.

CHAPTER AT A GLANCE

WHAT IS THE ECONOMIC GROWTH?

In simple words, economic growth occurs whenever people take resources and rearrange them in more valuable ways so that their aggregate utility increases. Economic growth is increase in the productive capacity of the economy over a long period of time. Process of growth is dynamic in nature. Economic growth implies not only increase in productive capacity but also improvement in the utilization of existing capacity.

It also incorporates the component of quality in it. If quantity is increasing but there is deterioration of quality, it is not desirable and can't be called growth. Hence, economic growth implies safer technology, shifting from agrarian structure to modern economic structure, better education and health and improved standard of living.

ECONOMIC GROWTH AND DEVELOPMENT: A CONTRAST

Economic Growth	Economic Development
Narrow	Comprehensive
It refers to increase in the productive capacity of the economy over years.	It refers to progressive change in the socio-economic structure of the country. It includes gender equality, change in composition of output, shift of labour force from agriculture to other sectors.
Easy to realize	Difficult to realize
Easy to estimate through per capita indicators etc.	Difficult to estimate as it includes many aspects

Hence, economic growth is quantitative measure and indicates increase in country's real per capita income over years but development is qualitative change in the economy in terms of reduction in inequalities of income, positive change in occupational structure, more security and much more of which some indicators might not be calculated quantitatively.

GROWTH PERFORMANCE OF THE WORLD ECONOMY

The economic growth in different countries has been different and uneven. The wide disparities that have existed in the rate of growth of different economies are clear from the table below:

Table 1: Table showing a comparative analysis of GDP and GDP per capita across countries:

Countries	GDP ($ million) 1990	GDP per capita ($) 1990	GDP ($ million) 2000	GDP per capita ($)2000	Compounded annual rate of growth:
India	267696.7	314.9	479404	472	6.0
China	405182	354.9	1079954	856	10.3
Japan	4110381.3	33349.4	4677099	36828	1.3
Australia	263641.8	15633.8	394023	20738	4.1
U.S.A.	7074185	28263.9	9882842	35046	3.4
Ethiopia	4020.7	78.9	6304	99	4.6
Pakistan	42885.2	397.8	61673	447	3.7
Germany	1611434	20249.2	1870136	22807	1.5
Canada	518097.4	18461.3	689549	22244	2.9
Kenya	8456.6	357.3	10410	347	2.1
U.K.	1104170.8	19152.4	1413432	23557	2.5

Source: **World Bank, World Development Report, 1992, 2002 and 2004.**

It has been observed that India, China, South Korea, Singapore, Thailand are amongst high growth LDCs. However, Japan, Australia, UK, USA, France, Germany, Canada are amongst the high income countries. Congo, Niger, Haiti, Madagascar are some of the low growth LDC's.

As for the performance of Indian economy is concerned, it has been steady and fast but we could not grow as fast as China did for many reasons. There is no doubt that the performance of Indian economy has improved a lot and is superior to many other countries of the world.

WHY STUDY THE PROCESS OF ECONOMIC GROWTH?

Following reasons can be put forward to convince a learner and a rationalist to study the process of economic growth:

1. It enables us to have a better understanding of many of the economic facts like:

   (a) Why U.K. was the first country to industrialize?

   (b) How in spite of so many natural and man made disasters, Japan could manage to perform so well?

   (c) Why do inequalities occur?

   (d) Why did some countries performed better than others?

2. A theory can help us to identify some strategic variables involved in the process of growth. These strategic variables can be used in other economies to improve their growth rates as well.

3. Understanding of the process of Economic Growth may help in formation of economic policies which further stimulate the rate of capital formation and hence economic growth.

THE IMPORTANCE OF ECONOMIC GROWTH

There is no empirical evidence to the fact that there is a strong and positive relationship between wealth resulting from rapid growth and happiness. To your surprise there is evidence of high levels of dissatisfaction in the high income countries than low income countries. But don't misinterpret the fact that growth is undesirable. Certainly it is not. Economic growth can alter the relative incomes compared to other economies. There are many advantages of having a high economic growth rate. Some of these are listed below:

1. It creates ability to access better standards of living in materialistic terms. It allows people to expand their consumption pattern from only basic to education, health, scientific research, entertainment, tourism etc. An economy where national income is too low, people can't afford even the basic needs how can we think of expanding effective demand.

2. Higher rates of economic growth means higher level of per capita income which lead to reduction in social conflicts arising for housing, better wages, health, education and other amenities. When resources are abundant, there are lesser conflicts which in turn reduces crime rate in the country.

3. Higher level of economic growth might help human beings to have a better control over environment. It might help to increase life expectancy, getting cure for many diseases and expanding control over resources.

4. Economic growth always tends to increase the number of women involved in economic activities. It helps them to have a better control on their lives, improves their value in the family and certainly enhances labour force for the economy which helps in further enhancement of the rate of economic growth. Reduction in gender inequality also solves many other social issues relevant for economic development like infanticide or adverse sex ratio.

5. Economic growth can help a society to come out of many problems which arise due to financial crisis. It is very much possible that as income rises, some people might get willing to forgo a part of their income to uplift the needy.

6. Poverty alleviation can best be done through higher rates of economic growth in an economy. This is called trickle down effect. As an economy grows, the benefit of growth trickles down to all sections of society and hence gradually poverty gets alleviated.

SOURCES OF ECONOMIC GROWTH

There are many factors which determine and contribute in the economic growth of a country. Economists stress three major sources of economic progress.

(a) Investment in physical and human capital,

(b) Improvement in technology,

(c) Socio-economic-political changes that enhance the efficiency of economy:

(i) Competitive Markets,
(ii) Stable Prices,
(iii) Free Trade,
(iv) Flexible Capital Markets,
(v) Avoidance of High Marginal Tax Rates,
(vi) Secure Property Rights,
(vii) Political Stability.

Capital Formation: Capital is the foremost requirement for enhancing the productive capacity of the economy. The greater is the capital formation, greater will be the productivity of all other factors of production, and hence greater will be the total output of goods and services in the economy.

Empirical evidence also suggests that there is a strong positive correlation between the rate of capital formation and the rate of economic growth. Most of the developed countries of the world have high rates of capital formation. In Czechoslovakia and Poland, gross investment rates ranged between 20-25%.

Capital-Output Ratio: Another important factor determining the rate of economic growth is capital output ratio. It refers to the number of units of capital that are required in order to produce one unit of output.

There is a tendency that as an economy grows the capital output ratio becomes more and more favourable. Besides, capital output ratio also varies sector to sector and industry to industry.

Rate of Growth of GDP

$$= \frac{\text{Investment – Income Ratio}}{\text{Capital – Output Ratio}}$$

To achieve high rate of economic growth of GDP, an economy has to ensure:

(a) Increasing in the rate of capital formation;
(b) Generating forces that increase the productivity of capital

Capital output ratio depends upon:

(a) Efficiency in the use of capital;
(b) Quality of managerial and organizational skill;
(c) Marginal efficiency of capital.

Occupational Structure: Occupational Structure refers to the distribution of work force over different sectors of an economy. There is an empirical evidence that as an economy grows there is a shift of labour force form primary to secondary and then to territory sector. This is called flight from land. With the shifting of labour from agriculture to service sector, efficiency of labour increases which in turn increases the efficiency of the economy.

Technological Progress: Technology can help to increase the productivity of existing resources. With improvement tin technology, same resources become more productive. For example, Computer technology has increased the output of all kinds of offices many times. DMRC is another wonderful example for it. For technological advancement, we need to have quality of education and well equipped research and development.

LIMITATION OF ECONOMIC GROWTH

1. Inequality of Income: Growth does not ensure that it will be equally distributed. Growth reduces absolute poverty but increases relative poverty. Most of the times, it has been seen that the benefit of development has gone to a small powerful section of the country. But such economic growth is immoral and leads to class struggle.

2. Negative Externalities (e.g. Pollution) Environment has a particular carrying capacity. With higher rates of economic growth, too much pressure falls on the environment. It results in air pollution, noise pollution, water pollution etc. Other examples of such negative externalities can be traffic problems and congestion.

3. Loss of Non-Renewable Resources: With increase in the consumption rate of resources, the rate of exhaustion has also gone up. If present economic growth is not taking care of the future generations, it may not last for long. Moreover, who amongst us would appreciate the availability of anti-ageing creams if it takes away clean drinking water or clean oxygen from us?

CHECK YOUR PROGRESS

Q. 1. What is the definition of Economic Growth?

Ans. Economic growth is increase in a country's real GDP or Per capita income over a long period of time. It does not mean erratic increase in income but a sustained increase over a long period of time. Economic growth is increase in total capital stock of the country so that country's productive capacity increases over time. It deals with material welfare and concentrates on increase in total availability of goods and services in an economy over a period of time. It is a process whereby an economy is capable to increase the size of its cake but does not ensure that the cake will be distributed equally amongst different members of the economy.

Q. 2. What is the difference between economic growth and economic development?

Ans. The difference between economic growth and economic development are:

1. Economic Growth is quantitative while economic development is qualitative.

2. Economic growth is comparatively a narrow concept and development is much more comprehensive.

3. Economic growth refers to increase in the total output of final goods and services in a country over a long period of time. In contrast, economic development refers to progressive change in the socio-economic structure of the country. It includes gender equality, change in composition of output, shift of labour force from agriculture to other sectors.

4. Economic growth is easy to realize as only monetary aspect is involved. But, it is very difficult to attain the goal of development as it involves many socio-economic-political aspects.

5. Economic growth can easily be estimated by real GDP or Real Per Capita income. But it is very difficult to measure development as it has some aspects that can't be quantified. Economic development however is indicated by Human Development Index.

6. Economic growth can take place without Economic development; however, economic development can't take place without economic growth.

Q. 3. How is 'extensive' economic growth different from 'intensive' economic growth?

Ans. The difference between extensive and intensive growth can be summarized as below:

1. Extensive growth refers to growth in total output level of an economy. Intensive growth refers to increase in per capita level of the output.

2. If output takes a jump due to unexpected one time force, it is called extensive growth. If there is continuous expansion in output due to some positive change over time, it is called intensive growth.

3. Extensive growth is temporary and short lived. However intensive growth is permanent and has long lasting effects.

4. Extensive growth is relevant to study aggregative phenomenon such as economies of scale. Intensive growth is relevant to study the increase in standard of living of the people of a country.

Q. 4. Which is a better indicator for assessing the growth performance of a country and why?

Ans. Real Per capita income is the best indicator of economic growth because:

(a) **It takes into account the population factor:** If in family A income is Rs. 20,000 and family B the income is Rs. 40,000, we can't say the family B enjoys a standard of living which is double than that of family A without knowing the total number of members in the family.

(b) **It is at constant prices and hence remains unaffected by change in price level:** Real Per Capita income is not affected by the change in price level.

Q. 5. Describe the broad contours of the growth of nations in the second half of the twentieth century.

Ans. The performance of different countries has varied a lot across the world. Following table shows that China has been the best performer in terms of growth rate and Nigeria is showing the worst performance. There are many factors responsible for the wide gap that is visible in the table.