Unit 1 Economic Growth and Economic Development

Introduction

To understand the present level of the Indian economy, it is important to understand the economic system of India during the British rule and post-independence economic development polices

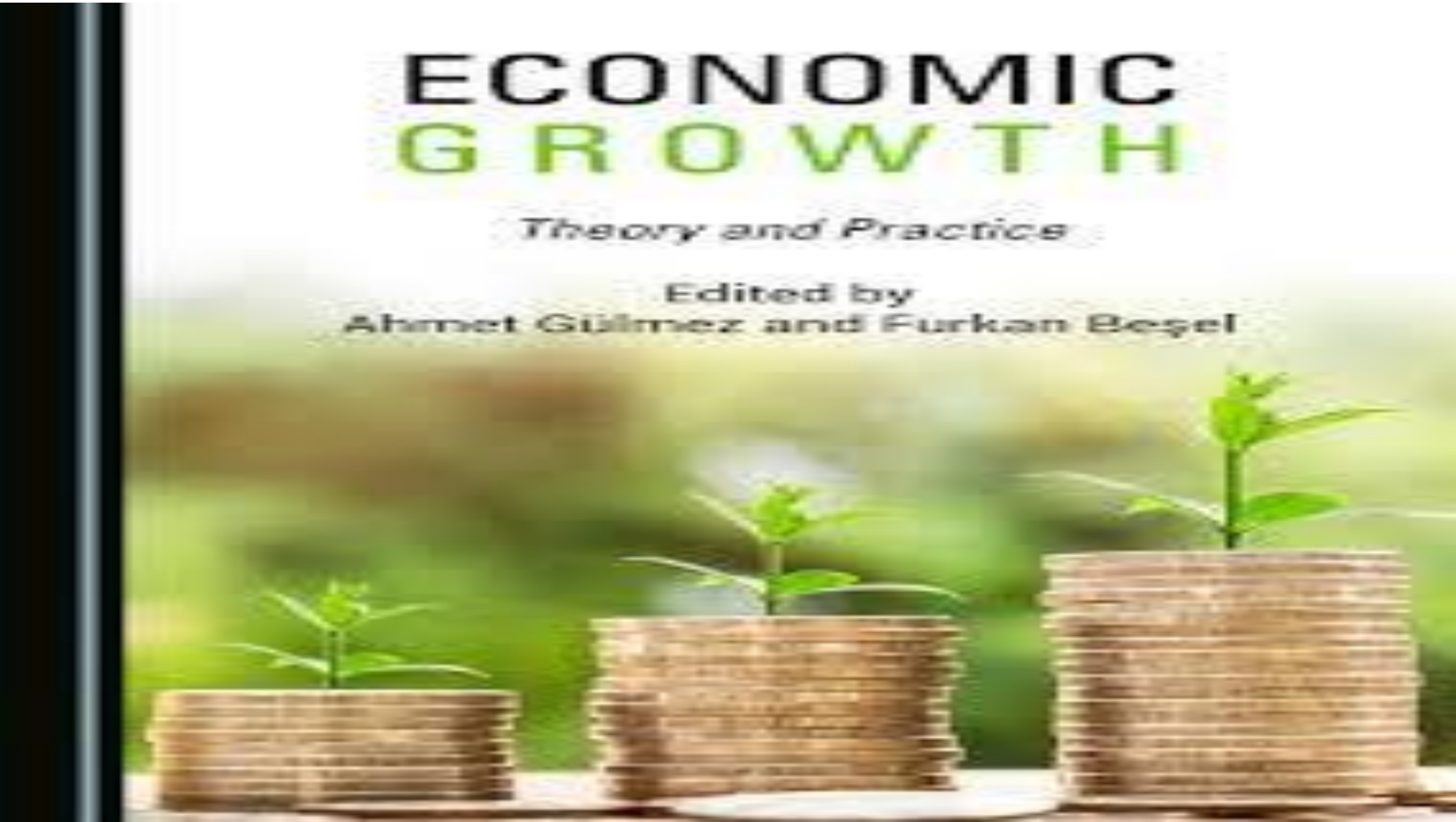
Before the advent(arrival) of British rule, India had an independent economy. It was largely primary sector economy and the major occupations were agriculture, handicrafts and many other primary sector works.

during the British rule, India's economy became a net raw material supplier and a net importer of finished products.

Every country in the world aims at achieving a multi-dimensional change in economic, social and cultural aspects through economic development.

- In common parlance the two terms economic growth and economic development cannot the same meaning and there appears to be no difference between them. Economic growth means more output and economic development implies both more output and changes in the technical and institutional arrangements.
- Concept of Economic Growth and Developmet
- Economic growth is a narrower concept than economic development. It is an increase in a country's real level of national output which can be caused by an increase in the quality of resources, increase in the quantity of resources and improvements in technology or in another way an increase in the value of goods and services produced by every sector of the economy.

Economic growth can be measured by an increase in a country's gross domestic product(GDP).



Economic growth is one of the most important indicators of a healthy economy. One of the biggest impacts of long-term growth of a country is that it has a positive impact on national income and the level of employment., which increases the standard of living. As the country's GDP is increasing, it is more productive which leads to more people being employed. This increases the wealth of the country and its population.

Additionally , as the population of a country grows, it requires growth to keep up its standard of living and wealth.

According to Micheal P Todaro, ‘economic growth is a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income’.

Essentials of Economic Growth

the essential features of economic growth can be explained as given here under:

1) Economic growth shows a higher rate of increase in real per capita income than the rate of growth population.

2) Economic growth is always linked with a large increase in productive ability of the economy.

In a short-run, economic growth is measured with the help of rate of saving and capital-output ratio, while in the long run it is measured with the help of increase in labour force and technological growth. Thus the four determinants o economic growth can be understood as

1) Rate of savings of the economy: The saving rate is the percentage of disposable personal income(is the amount of income you have left after you have paid income tax.) that a person or group of people save rather than spend on consumption.
2) Capital –output ratio, where the stock of capital is divided by output. Capital output ratio is the amount of capital needed to produce one unit of output. For eg. Suppose that investment in an economy is 32% and the economic growth corresponding to this level of investment is 8%. Here, a Rs 32 investment produces an output of Rs 8.
3) Rate of growth of labour force: Increase in the quantity and quality of the workforce increases rate of economic growth. Here, increase in quality refers to improvement of skills the workers posses. When more people work , more goods and services are produced and when more skilled workers do a job, they produce high value goods and services.
4) Rate of growth of technological progress: Technology includes methods and procedures used to produce various goods and services.

Revisiting Determinants of Economic Growth