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WORKSHEET 18 LESSON NOTES

School: Ba Sangam College
Subject: Economics

Year: 11

Name: _____

Strand 5	Development Economics
Sub Strand 5.1	Economics Growth
Content Learning Outcome EC11.5.1.1	Analyse Fiji's government policies towards economic growth.

The Benefits of Economic Growth

1. Improve Standard Of Living

Results in higher material well-being, where there is greater volume and variety of consumer goods and services, improvement in the quality of goods, better standard of health and nutrition with improved housing conditions.

2. Increased Employment Opportunities

Economic growth provides improved employment opportunities for an expanding workforce.

3. Improved Economic And Social Mobility

Economic Mobility of Resources refers to the ease with which resources move between avenues of employment, resulting in a more flexible economy promoting structural change conducive to rapid economic growth.

Social Mobility brings forth rising income, improve access to higher education and a wider range of occupational choice allowing individuals to move easily between social groups.

4. Increased Social Welfare

Rising incomes and expenditures accompanying growth provide increased tax revenue for the government, therefore, increasing transfer payments, which reduce income inequalities.

5. Increase Participation In International

Trade

⇒ Economic growth allows each country to participate more fully on world trade to enjoy the advantages of specialization.

6. Increase Assistance to Less Developed Countries

⇒ Rising real incomes and increasing participation in trade, make it possible for developed nations to contribute towards the growth and well-being of less developed nations.

The Costs of Economic Growth

1. Harmful Externalities And Social Cost

⇒ Externalities refer to those costs and benefits associated with production and consumption of certain commodities which the price mechanism fails to account. Such cost can include carbon monoxide from cars, chemical waste dump into rivers and sea.

⇒ Social costs are regarded as the worst consequence of economic growth, which falls under two categories, namely those associated with pollution and environmental damage and those with deteriorating quality of life.

2. Structural Unemployment

- It arises because the skills of the unemployed no longer match those required by the employer.
- It tends to be long term in nature, as the acquisition of new skills takes time and pose particular problems for older workers. However, in a rapidly growing economy, such structural

unemployment is inevitable.

3. Lower Current Living Standards

⇒ Capital accumulation involves an opportunity cost of the consumer goods foregone, therefore, effectively sacrificing current living standards. This sacrifice is regarded by many as the prime cost of economic growth.

4. Inflation

⇒ High levels of economic growth are likely to accompany inflation.
⇒ As the economy approaches full employment, competition between firms for increasingly scarce labor, forces up wages which leads to increase production cost which are borne by consumers, such is known as cost inflation.
⇒ However, inflation can occur because the rate of growth in output is insufficient to meet demand for additional commodities by the people, resulting in demand inflation.

5. Balance of Payments Deficit

⇒ An economy's international competitiveness tends to decline when local rate of inflation exceeded that of trading partners, causing rise to more imports, falling exports and large current account deficit.
⇒ Furthermore, increasing demand for imports tends to put pressure on exchange rate, which can also lead to a rise in foreign debt.

6. Concentration of Economic Power

- Economic growth has been accompanied by expansion of large scale production and monopolies. The growth of monopolies has meant concentration of ownership and control by fewer firms. This has resulted in reduce competition, higher prices and delay technological progress.
- Therefore, monopolies acting on the interest of shareholders rather than those of the government tend to have a significant impact on the economy as a whole.

7. Depletion of Resources

⇒ Rapid economic growth has resulted in

excessive use of resources to meet the increasing demand of goods and services for consumers. As such is accompanied by misusing natural resources where there is a small portion left only to cater for future demands.

Activity

1. What is meant by Economic Growth?

(1 mark)

2. Identify **two** benefit of Economic Growth

(2 marks)

3. List **two** cost of Economic Growth

(2 marks)

4. State and explain the type unemployment that occurs due to Economic Growth