

PENANG SANGAM HIGH SCHOOL

P.O BOX 44, RAKIRAKI

LESSON NOTES –WEEK 19 -21

**Subject:** Economics

**Year:** 11

**Strand:** 5- Development Economics

**Sub Strand:** 5.1

**Content Learning Outcome:** - Analyse Fiji's government policies towards economic growth.

**Lesson Notes**

✓ **Economic growth** – is the increase in productive capacity of a nation.

- Is the increase ability of a nation to satisfy the material wants of its people over a period of time.
- Is the Qualitative Change.

✓ **Sources of Economic Growth**

1) **Increase in the Quantity of Resources**

The quantity of land can be increased through the discovery, development and use of new natural resources. Likewise, the bringing of once unproductive land into use, such as, draining of swamps, clearing of scrubs for grazing purposes and the development of irrigation.

2) **Improvement in the Quality of its Resources**

The quality of the labor force, have traditionally been considered as one of the most important sources of economic growth. However, a large, well trained workforce means increased opportunities for specialization and a greater potential output for goods and services.

A well-educated, high skilled workforce is conducive to high levels of productivity and real output. It is also more competent, more adaptable to change, and has a greater capacity for innovations.

### 3) Technological Progress

An economy must undertake capital accumulation in order to increase its productive capacity. Thus, requiring net investment which can result in greater potential output of goods and services and an even greater rate of economic growth.

Therefore, the application of new technology generally involves the use of new, improved capital productivity and contributing to higher rates of economic growth.

## ✓ Measures of Economic Growth

### 1) Real GDP

Allowance for population changes can improve the usefulness of Real GDP as a good indicator of the rate of economic growth. As such, it will become more reliable measures of Economic growth. Furthermore, it will allow comparison of growth rates between different countries.

### 2) Real GDP per Capita

Measures the value of real goods and services available on average to each member of the population. Alternatively known as real income per capita.

$$\text{Real GDP per Capita} = \frac{\text{Total Real GDP}}{\text{Total Population}}$$

### 3) Real per Capita Consumption Expenditure

Attempts to measure the standard of living in terms of the quantity of consumer goods and services purchased per household. Thus, rising consumption per capita indicates increasing levels of want satisfaction among the consumers.

### 4) Real Productive Growth

Indicates the rate of increase in the volume of goods and services per person in the labour force, thus, rising in productivity levels indicates that society is potentially capable of satisfying more of its material wants over time.

### 5) Real GDP per Capita Adjusted For The Term of Trade

This improves the accuracy of Real GDP per capita as an indicator of improvement in the standard of living by measuring the goods and services which are available to consumers through international trade. Such adjustment is considered due to the exclusion of imports from GDP.

### 6) Measures of Economic Welfare And Physical Quality of Life Index

**Measure of Economic Welfare** focuses on the consumption of goods and services, inclusive of the estimated value of household activities, leisure with associated cost of pollution and environmental damage.

**Physical Quality of Life Index** measures a nation's standard of living in terms of its ability to meet the basic needs of its people.

### ✓ 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, where structural changes accompany development of new markets; expansion of existing ones, giving rise to new avenues of employment in some sectors and growing employment opportunities in others.

#### 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

With economic growth is a greater provision for the elderly, sick and unemployed. Thus, 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. These advantages are found in greater volume and variety of commodities available for consumption, greater access to raw materials and more efficient use of resources and transfer of new technologies.

#### 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 Cost of Economics Growth**

#### 1) Harmful Externalities and Social Costs

**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. These harmful externalities are called Social Cost.

**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. Also, is regarded as a serious issue since it involves an important opportunity cost to society, in terms of commodities that the unemployed could have produced.

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 Standard

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. Which is a threat for it lowers real incomes, increase income inequality and leads to misallocation of resources.

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 Payment 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.

#### Ways to Improve Economic Growth

- 1) Export Orientated Policy
- 2) Import Substitution Policy
- 3) Tax Free Zone
- 4) Diversification
- 5) Improved investment
- 6) Improved productivity

#### **Class Activity**

1. A serious problem associated with economic growth is

- |   |                                |
|---|--------------------------------|
| A. Increase pollution and increase unemployment | B. Equal income distribution   |
| C. Poor international relation                  | D. Increase private investment |

2. Which of the following is not a source of Economic Growth?

- |  |                           |
|--|---------------------------|
| A. Increase quantity of its resources          | B. Real GDP per capita    |
| C. Improvement in the quality of its resources | D. Technological progress |

3. What is meant by Economic Growth?

4. Differentiate between Measure of Economic Welfare and Physical Quality of Life Index.

#### 5. ESSAY WRITING QUESTION

Discuss Economic Growth with reference to:

- three sources of Economic Growth [3m]
- three indicators of Economic Growth [3m]
- two benefits and two costs of Economic Growth [3m]