

4th semester (Major)
M 405, Introduction to Development
Economics

Topic - Economic Growth: Meaning and Sources
of economic Growth: Population Growth, Capital
Accumulation and Technical Progress, the Nation
of capital-output ratio, Theories of Economic
Growth - classical- Approach: Smith and Ricardo,
Harrod-Domar's Theory of Instability of Growth
Process.

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Q1. Highlight the significance of the notion of Capital-output ratio. (1)

Ans: The notion of capital-output ratio has been used increasingly as a tool of policy formulation and planning in developed as well as less developed countries.

Q2. What is Harrod's 'natural growth rate'? (2)

Ans: Harrod's 'natural growth rate' is determined by natural conditions such as labour force, natural resources, capital equipment, technical knowledge etc. The 'natural growth rate' is the maximum growth rate which an economy can achieve with its available natural resources.

Harrod's natural growth rate is

= g_n or g_c is either = or \neq s .

Q3. What constitutes the "invisible hand" in the classical theory? (2015)

Ans: The classical economists believe in the existence of an automatic free market perfectly competitive economy which is free from any government

interdependence. It is the "invisible hand" which maximises the national income.

4. What determines the rate of growth in the classical theory? (1) 2015

Ans: Technical progress and population growth determine the growth in the classical theory.

5. Define Adam Smith's idea of 'division of labour'. (2) 2015.

Ans: 'Division of labour' is the starting point of Smith's theory of economic growth. It is division of labour that results in the greatest improvement in the productive power of labour.

He attributed this increase in productivity:

- (i) to the increase in the dexterity of every worker
- (ii) to the saving in the produce goods.
- (iii) to the invention of large number of labour-saving machines.

Division of labour, however, depends on the size of the market.

6. Elaborate the meaning of capital accumulation.
(6) 2015

Ans: All classicists regard capital accumulation as the key to economic progress. They lay emphasis on longer savings. Only capitalists and landlords are capable of saving, according to them. The working class is incapable of saving because it gets wages equal to the subsistence level.

Capital accumulation is the central point of Adam Smith's theory of economic development. According to him, the only way to increase wealth is to produce more, which in turn requires more capital investment. For this purpose, we must produce more capital. The production and use of capital is the integral part of capitalist development.

According to Ricardo, capital is saved from profits, and profits are favourable to the accumulation of capital. According to him, profit is the primary source of capital accumulation and secondary sources are wages and rents.

Mrs. Joan Robinson in her book "The Accumulation of Capital" builds a simple model of economic growth as with studying the properties of equilibrium growth. According to her, the profit rate is the ratio of labour