

1. The originator of the classical approach to development is _____. (fill in the blank).

Ans: - Adam Smith.

2. Which sector absorbs the surplus labour in Lewis Model?

Ans: - Industrial sector or capitalist sector.

3. Why is the concept of vicious circles of poverty?

Ans: - According to the principle of vicious circle of poverty, VDC level of income remains low which leads to low level of saving and investment ~~and so on~~. ~~so on~~. i.e. it implies circular constellation of forces tending to act and react one another in such a way as to keep a poor country in a state of poverty.

4. Wage fund is financed by capitalists _____. (fill in the blank).

Ans: - Capital.

5. Give the meaning of backwash effect as given by Myrdal.

Ans: - The movement of wealth from poorer regions to the central rich region is called backwash effect.

6. On what basis are the countries classified as developed and developing?

Ans: - Gross national income (GNI) per capita.

7. What is basic strategy of the theory of balance growth?

Ans:- Various sectors of an underdeveloped economy should be developed simultaneously so that no difficulty in the path of economic development is created.

or
'Investment takes place simultaneously.'

8. According to Prof. Hirschman development can take place only by ~~the~~ _____ the country. (fill in the blank).

Ans:- Dis-equilibrium / deliberate imbalances'

2 marks

1. State and explain the meaning of Hirschman's Social over head capital.

Ans:- Social over head capital (SOC) is defined as basic services without which primary, secondary and tertiary productive activities cannot function. In a narrow sense, SOC is defined to include transportation and electricity, while in a wider sense, it includes all public services, including law and order and education. The investment in the creation and expansion of such services is made by public agencies for the promotion of ~~the~~ social welfare and ~~for~~ for the encouragement of directly productive activities. When investment is made for the generation of electricity, it will cheapen the supply of electric power, which would encourage the establishment of new industries, expand the sphere of trade and business activities.

2. Give the meaning of Spread effect in the theory of cumulative causation. How do they work?

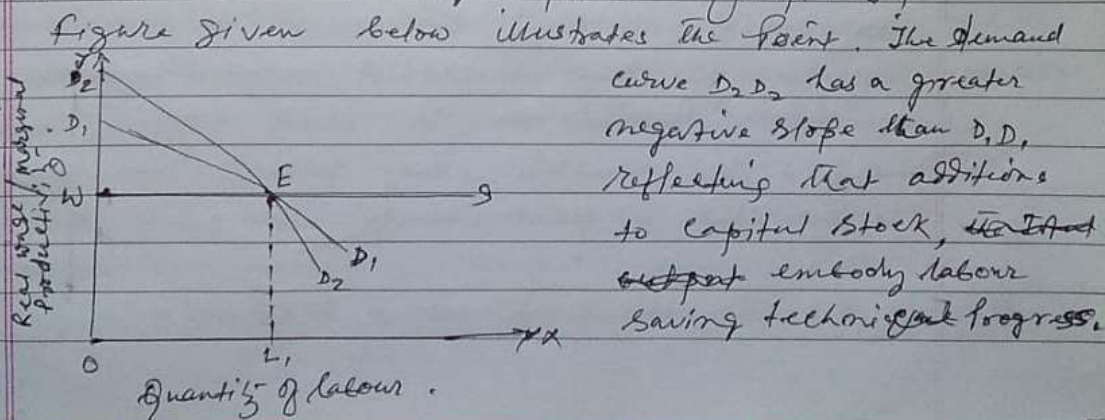
Ans. The spread effects are the favourable repercussions on backward regions emanating from the expanding regions are called spread effects. These spread effects consist mainly of an increased demand for the backward regions products and the diffusion of technology and knowledge.

When development takes in one place, it spreads to its suburbs and all the adjoining areas. For example Delhi is the developing centre; Faridabad, Gurgaon, Ghaziabad etc. have benefited from Delhi's growth due to the spread effect caused by Delhi's growth.

5 marks

10 Point out the three key assumptions of Lewis model that make it unrealistic.

Ans: - 1. Lewis model implicitly assumes that rate of labour transfer and employment creation in the urban sector is proportional to the rate of urban capital formation. It implies that faster the capital formation higher would be the growth of urban sector and larger the employment creation. But what would happen if the surplus capitalist profits are reinvested in the labour-saving capital equipment?



With the increase in capital stock, the total output has grown substantially, i.e. OD_2E_2 , which is greater than OD_1E_1 . The total wage being OD_2E_2 , and employment OL_2 , no increase in employment is there despite the fact capitalist profit is reinvested. This shows that the assumption of proportional relation between capital accumulation and job creation is not valid.

2. The second assumption of the model is that surplus labour exists in rural areas and full employment in the urban sector. Even this assumption is at variance with reality. Even the contemporary research indicates that exactly reverse is true in many Third World countries.

3. The third unreal assumption is the notion of competitive modern sector labour market that ensures the continued existence of constant real rural wages upto the point where the supply of rural surplus labour is exhausted. The presence of institutional factors such as union bargaining power, civil service wages scales and multinational corporations practices tend to negate competitive forces in the modern sector labour markets.

2. Explain Myrdal's backwash effects in terms of migration, capital movement and trade.

Ans:- Backwash effects are the negative impacts of the growth of the Core region on the peripheral regions, which tend to be poorer.

Circular and cumulative causation to explain the backwashness of developing nations is one of the hypothesis of Myrdal. This hypothesis explain the causes for the persistence of spatial difference in a wide variety of development indices like per capita income, rate of growth of industrialisation and trade, employment growth rates and levels of unemployment.

Myrdal considers this hypothesis in the context of a geographically dual economy and describes that labour migration, capital movement and trade creates the situation in which dualism retards the development of backward regions. To describe the hypothesis, we start off with a country in which all regions have attain the same level of development, same level of per capita income, similar labour levels of productivity and wages in the same occupations. Now suppose exogenous forces produce a disequilibrium situation and development takes place more rapidly in one region than other. This hypothesis explain that exogenous forces will tend to strengthen the disequilibrium situation and cumulative expansion may take place in the ~~favoured~~ favoured regions. Less favoured regions may become worse off and their future development may be retarded.

Wage level is the basic determinant of per capita

income. To explain Myrdal's hypothesis we take two regions A (developed) and B (less developed) and assume that wages are determined by supply and demand. We also assume that wage levels are identical in two regions. Suppose that a stimulus of some sort causes the demand for labour resulting a rise in wage in region A relative to region B. The demand for labour in region A increases, as a result wage rate also increases. This wage rate will induce labour migration from region B to region A. According to this thesis, changes in supply would react on demand in such a way as to counteract the tendency towards equilibrium. Migration of labour from region B would depress the demand for goods and services and factors of production. The movements into region A, on the other hand, will tend to stimulate enterprise and demand for products, adding to the demand for factors of production. Thus once development differences appear, these set in motion a chain of cumulative expansion in developed regions. Myrdal calls this phenomenon "backwash effect."

Capital movements and trade are the other factors that cause the process of cumulative causation. Capital will shift from the region (with low capital return) to the region with high capital return. It means that capital will move to that area or region where the prospective ~~return~~ return is higher and where demand is buoyant. The benefits of trade will also accrue to the developed region. If production is subject to increasing returns, the region experiencing the rapid growth of factor supplies will be able to increase

We also explain the spread effect with the help of an example.

Delhi is the developing centre with all the companies, educational institutions etc, being set up there. We could argue that suburbs like Faridabad, Gurgaon, & Ghaziabad etc have benefited from Delhi's growth due to the spread effect caused by Delhi's growth.