

Concept of Economic Growth and Economic Development

BA Part III
Economics Hons.

What is Economic Growth?

- ▶ Economic growth is an increase in the production of goods and services in an economy.
- ▶ Increases in capital goods, labor force, technology, and human capital can all contribute to economic growth.
- ▶ Economic growth is commonly measured in terms of the increase in aggregated market value of additional goods and services produced, using estimates such as GDP

Understanding Economic Growth

- ▶ In simplest terms, economic growth refers to an increase in aggregate production in an economy. Often, but not necessarily, aggregate gains in production correlate with increased average marginal productivity. That leads to an increase in incomes, inspiring consumers to open up their wallets and buy more, which means a higher material quality of life or standard of living.
- ▶ In economics, growth is commonly modeled as a function of physical capital, human capital, labor force, and technology. Simply put, increasing the quantity or quality of the working age population, the tools that they have to work with, and the recipes that they have available to combine labor, capital, and raw materials, will lead to increased economic output.

ways to generate economic growth

- ▶ The first is an increase in the amount of physical capital goods in the economy.
- ▶ A second method of producing economic growth is technological improvement.
- ▶ Another way to generate economic growth is to grow the labor force.
- ▶ increases in human capital.

What is Economic development

- ▶ Economic Development = Growth + Change
- ▶ Economic development is a broader concept than economic growth. Development reflects social and economic progress and requires economic growth. Growth is a vital and necessary condition for development, but it is not a sufficient condition as it cannot guarantee development.
- ▶ According to Amartya Sen, –development is about creating freedom for people and removing obstacles to greater freedom. Greater freedom enables people to choose their own destiny. Obstacles to freedom, and hence to development, include poverty, lack of economic opportunities, corruption, poor governance, lack of education and lack of health.

Indicators of Economic development

- ▶ The Human Development Index (HDI)
- ▶ Life expectancy
- ▶ Adult literacy
- ▶ GDP per capita

Difference Between Economic Growth & economic development

	Economic Growth	Economic Development
Definition	Increase in the monetary growth of a nation in a particular period	It refers to the overall development of the quality of life in a nation which includes economic growth
Span of Concept	It is a narrower concept than Economic Development	It is a broader concept than Economic Growth
Scope	It is a uni-dimensional approach which deals with the economic growth of the nation	It is a multi-dimensional approach that looks into the income and as well as the quality of life of the nation
Term	Short-term process	Long-term process
Measurement	Quantitative	Both Quantitative and Qualitative
Applicable to	Developed Economies	Developing Economies

	Economic Growth	Economic Development
Government Support	It is an automatic process that may or may not require intervention from the government	It requires intervention from the government as all the developmental policies are formed by the government
Kind of changes expected	Quantitative changes	Quantitative as well as qualitative changes
Examples	GDP, GNP	HDI, Per capita Income, Industrial Development