

Lesson 91

Strand 5: Economic Growth

Strand 5.1: Economic Growth

Learning Outcome: Describe the sources of Economic Growth .



ECONOMIC GROWTH

- It is simply the increasing ability of a nation to satisfy the material wants of its people over a period of time. It refers to increase in productive capacity of a nation.

Sources of Economic Growth:

A nation can expand its productive capacity through:

1. Increase in the Quantity of Its 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. Improvements 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.

Activity:

1. Discuss two sources of economic growth.

Lesson 92

Strand 5.1: Economic Growth

Strand 5.1 : Economic Growth

Learning Outcome: Describe the indicators of Economic Growth

Indicators of Economic Growth:

1. Real GDP Per Capita

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.

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 Productivity 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 Terms 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. Measure 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.

7. 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

Activity

1. Differentiate between Real GDP per capita consumption expenditure and Real GDP per capita.

Lesson 93

Strand 5: Economic Growth

Strand 5.1: Economic Growth

Learning Outcome: Describe the benefits of 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, 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.

Activity:

1. What does increased social welfare mean?

Lesson 94

Strand 5: Economic Growth

Strand 5.1: Economic Growth

Learning Outcome: Describe the costs of Economic Growth

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. 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 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. 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 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.

WORKSHEET LESSON 90- 94

Use your knowledge of lesson 90 to 94 to answer the following questions.

Circle the letter that represents the best answer.

1. A factor that directly affects economic growth is
A. culture B. religion C. social welfare D. physical infrastructure
2. Which of the following is a negative externality of economic growth?
A. poverty B. pollution C. political instability D. slower productivity
3. The rate of economic growth is best defined as the increase in
A. the value of exports and imports.
B. total money supply in an economy.
C. the value of output produced in an economy.
D. the production of goods and services measured in real terms.
4. Economic development is the _____ change that takes place in an economy.
A. qualitative
B. quantitative
C. percentage
D. numerical
5. The protectionism tool in the forms of taxation on imported goods is known as
A. tariff B. embargo C. import quota D. local content rule

B.

1. Define Economic growth.
2. List two indicators of economic growth.
3. Describe two benefits of economic growth.
4. Discuss two costs of economic costs of growth.
5. State the difference between economic growth and development.

The End!!