



[Frequently Asked Questions]

Understanding Economic Growth

Subject:	Business Economics
Course:	B. A. (Hons.), 6 th Semester, Undergraduate
Paper No. & Title:	Paper – 641 Elective Paper E2 Economic Growth and Policy
Unit No. & Title:	Unit – 1 Economic Development – Definitions and Concepts
Lecture No. & Title:	Lecture – 1 Understanding Economic Growth

Frequently Asked Questions

Q1. What is meant by economic growth?

A1. Economic growth is the increase in the quantity of economic parameters which ultimately lead to a rise in national income.

According to Prof. Simon Kuznets, "economic growth is a long-term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity based on advancing technology and the institutional and ideological adjustments that it demands."

Q2. State the constituents of growth process.

A2. The constituents of growth process are,

- 1.** National output.
- 2.** Capital accumulation, including new investments in land, physical equipment, and human resources – increase in wealth.
- 3.** Growth in population which gradually leads to increase in labour force.
- 4.** Technological progress.

Q3. Which factors contribute to the process of economic growth?

A3. Some factors which contribute to the growth process are,

- Increase in employment of labour.
- Improvement in technology.
- Enhancement in infrastructures.
- Increase in investment.
- Increase in pace and speed of production.
- Better utilization of factors and resources.
- Increase in demand for goods and services.

Q4. Which are the characteristic features of the historical growth process?

A4. According to Simon Kuznets, the historical growth process of the developed world had six characteristics as,

1. Two aggregate economic variables:

(i) High rates of growth of per capita output and Population

(ii) High rates of growth in factor productivity, especially labour productivity

2. Two structural transformation variables:

(iii) High rates of structural transformation in the economy

(iv) High rates of social and ideological transformation

3. Two factors affecting the international spread of growth:

(v) Propensity to reach out to other countries for cheaper resources and markets to sell goods.

(vi) The spread of growth to limited segments of the population.

Q5. How is economic growth measured?

A5. Growth can be measured by checking the growth rate of national income, capital formation, value of imports, exports, growth of employment, industrialization etc.

Q6. Which is a better measure of economic growth?

Growth of GDP or growth of per capita GDP?

A6. Per capita GDP is a better measure of economic growth.

Q7. Why is growth of per capita GDP considered a better measure of growth than growth of gross GDP?

A7. While gross GDP measures the output produced, per capita GDP shows the output per person. If growth of GDP takes place

but the population growth rate is also very high, there will not be much rise in per capita GDP. Hence growth of output per person is definitely a better measure of growth.

Q8. Does economic growth necessarily mean welfare of people?

A8. Economic growth does not necessarily mean increase in welfare.

Q9. Which concept explains improvement in welfare of people?

A9. The concept of economic development explains welfare of people.

Q10. Why is it important to study growth process?

A10. Growth increases the capacity of a nation to provide more goods and services to her people and to improve their welfare. Hence, it is important to study the growth process of an economy.