[Summary]

Understanding Economic Growth

Subject:	Business Economics
Course:	B. A. (Hons.), 6th Semester, Undergraduate
Paper No. & Title:	Paper – 641 Elective PaperE2 – Economic Growth and Policy
Unit No. & Title:	Unit – 2 Growth Model
Lecture No. & Title:	Lecture – 1 Understanding Economic Growth

Summary

According to some growth theories, growth occurs when people abstain from current consumption and save. Savings result in investments in capital. With increase in stock of capital, output rises. New investment raises the stock of capital but capital depreciates over time and hence investment process must keep continuing. If investment and capital stock have to keep on increasing then savings must increase. Hence, as the national income increases, the proportion savings in the new income must be maintained.

If savings and stock of capital grow in the economy but capital output ratio is poor then growth of national income will not rise desirably. Hence, it is also important to maintain a desirable capital-output ratio.

Population growth will reduce the growth of per capita capital availability, per capita income and growth.

Hence new capital formation must take place in a proportion enough to maintain growth of income given the rate of depreciation, capital-output ratio and population growth.

Harrod-Domar model of economic growth asserts this method of economic growth.