



[Frequently Asked Questions]

LEWIS MODEL

Subject:	Business Economics
Course:	B. A. (Hons.), 6 th Semester, Undergraduate
Paper No. & Title:	Paper – 641 Elective PaperE2 – Economic Growth and Policy
Unit No. & Title:	Unit – 2 Growth Model
Lecture No. & Title:	Lecture – 3 LEWIS MODEL

Frequently Asked Questions

Q1. What is the basic objective of Lewis's theory pertaining to increasing growth by shifting surplus labour from traditional sector to the modern sector?

A1. The basic objective of Lewis's theory is to increase the productivity of workers who are surplus in the traditional sector.

Q2. Which are the traditional sectors in less developed countries?

A2. The agricultural and the small scale unorganized sectors are the traditional sectors of less developed countries.

Q3. What is a unique identifying feature of the traditional sector?

A3. The traditional sector employs traditional methods of production which are labour intensive. Since it uses negligible capital, there is no scientifically determined labour requirement per job. Hence, this sector ends up employing excess labour as the population in such sectors is high.

Q4. Till what level will the capitalist sector employ labour?

A4. Capitalist sector will employ labour till it earns a capitalist surplus. Capitalist surplus is the difference between the total revenue productivity of the workers employed and the total money wages paid to them. The employment stops after the total revenue productivity of the workers employed = the total money wages paid to them.

Q5. When will the surplus labour from the traditional sector shift to the modern sector?

A5. The surplus labour will shift from the traditional sector to the modern sector when it is paid higher real wages than subsistence wages or the wages of the traditional sector.

Q6. What is the role of the government in Lewis's theory pertaining to surplus labour?

A6. Government must encourage increase savings in the economy to increase investment in the capitalist sector and also expand credit to increase investment. When investment increases, the demand for labour in the modern sector will increase.

Q7. When does the shifting of surplus labour from the traditional to modern sector stops?

A7. The shifting of surplus labour from the traditional to modern sector stops when wage rates in the two sectors are equalized.

Q8. How can labour productivity be increased in the modern sector to increase capitalist surplus?

A8. Labour productivity in the modern sector can increase with technological progress and capital formation.

Q9. What is the impact of trade union activities in Lewis's theory pertaining to unlimited supplies of labour?

A9. If trade unions raise wages in the modern sector, the capitalist surplus declines and the demand for labour reduces. As a result, the process of shifting of surplus labour from the traditional to the modern sector will slow down.

Q10. Which is a major weakness in the practical applicability of Lewis's theory pertaining to unlimited supplies of labour?

A10. Labour in the traditional sector is unskilled to operate machines and perform industrial tasks. Hence, even though there is a demand for labour in the industrial sector, this sector may not necessarily employ the labour from the traditional sector. Thus the unskilled nature of labour in the traditional sector is a major impediment in shifting of surplus labour from the traditional sector to the modern sector which demands skilled labour.