Growth and Development.

Topic - 1

Theories of Development

3. Theories of Development

1. Adam Smith theory
2. Malthus theory
3. David Ricardo theory
4. Marxian theory
5. Rostow’s model
1. ADAM SMITH THEORY.

Adam smith emphasis upon capital accumulation.

Capital is accumulated by saving.

Acc. To him wealth is considered as index of country’s prosperity.

Wealth is increases by produce more.

To produce more capital, Smith stress on role of parsimony which increases Capital accumulation.

Level of output increased by division of labour which result in specialization.
2. MALTHUS THEORY.

He wrote book “Essay on the principal of population”

There are two views of Malthus,

1. Theory of population.  
2. Effective demand.

Malthus was only classical to emphasized importance of demand for determination of output.

To generate fund for development Malthus focus on -

1. Saving of landlords.  
2. Investment of capitalist.
Acc. To Malthus there is imbalance bw population growth and growth of food supply.

Population is grow at geometrical ratio.(1,2,4,5,16,64,)

Food supply is grow at arithmetic ratio.(2,5,8,11)

Any increase in Per capita income due to technical progress lead to more birth, it will reduce the PCI back to subsistence level.

Acc. To him population goes doubled after every 25 years.
Population control

Population can be control with 2 ways-

1. Positive check or natural check.

Natural disaster - flood, earthquake, war etc.

2. Preventative measure.

Family planning, late marriage, celibacy.
3. Ricardo Theory

Ricardo theory is based on Malthus theory.

He looks economy as a dynamic.

He was more concern with Income distribution and foreign trade.

Acc. To him there are three agent of development - capitalist, laborer and landlord.

Wage rate is determined by minimum subsistence level not by \( MP_L \).

In short run wage rate rise or fall but in long run wage rate should be equal to subsistence level.
Real wages are fixed.

Primary source of capital is – profit.

Profit depend only- wages.

Profit of industry and agriculture will be same.

Agriculture sector profit determined by industrial sector profit.
4. CARL MARX

He derived his theory from Ricardo.

His theory also known as theory of surplus value.

Marxian theory is rest upon the labour theory of value.

Concept of reserve army and surplus population.

Technical progress by involve large scale labour saving devices, as a result surplus manpower.

Carl marx define labour as congealed labour.

And value of labour as – crystallised labour.
Three components of Marxian theory.

1. Constant capital. (C)
2. Variable capital. (V)
3. Surplus value. (S)

Aggregate output = C + V + S

1. Rate of surplus value. \( S_v = \frac{S}{V} \)
2. Rate of profit - it is the ratio bw surplus value and total capital (C+V)

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\text{Rate of profit} = \frac{S}{C+V}
\]

3. Organic composition of capital - it is the ratio bw constant capital and variable capital.

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\text{Organic composition of capital} = \frac{S}{V}
\]
There is inverse relationship bw organic composition of capital and profit.

As organic composition of capital increases will lead to profit will be decreases.
This theory was published in 1960.

He emphasized on social and institutional factor as important for economic development.

He developed the 5 stages of growth.
1. Traditional society.
2. Pre-condition of take-off
3. Take-off
4. Derived to maturity
5. High mass consumption
stage1. The traditional society

Economy is based on agriculture.

It is related with backward society.

In this stage **investment limit below 5 %** of national income.

Industries are grow but limited.
Stage-2. pre-condition for take off

In this stage the process of transition, change in economic, social, and political structure.

This stage prevent from diminishing return to scale.

Three imp. Dimensions of this stage.

1. Shift from agriculture to industry.

2. Trade and other commerce activities to expend market.

3. Surplus should not spend on conspicuous consumption, but on industry, infrastructure and eco. development.
In this stage investment should be above 5% of N.Y.

Acc. To him capital formation depend upon- productivity of agriculture.
Stage-3. Take off

If refers to the grow of one sector to expansion of the other and achieve **self sustaining growth**.

This stage is known as **dynamic economic growth**.

Investment should be above 10% of N.Y.

The main feature of this stage is – **rapid self-sustain growth**.

India reached in take off stage during 3rd five year stage.
Rostrow define it as the period when society applied the range of modern technology.

Many technical changes take place.

Investment should be 10% to 20% of N.Y.

Generally it take 60 years to shift from take off to derived to maturity.
Stage-5 Age of high mass consumption.

After derived to maturity people try to sleep more leisure more welfare and more security.

To provide these facilities the society allocate larger resources and mass consumption

In this stage conspicuous consumption increases.
GROWTH AND DEVELOPMENT.

TOPIC- 2

NEO CLASSICAL THEORIES OF DEVELOPMENT

Solo model, endogenous model, Joan Robinson model.
4. Theories of Economic Growth

- Neo-classical
  - 1. Sollow model
  - 2. Endogenous growth model
  - 3. Joan Robinson model
  - 4. Mead model