

GROWTH AND DEVELOPMENT.

TOPIC- 5

BALANCE

&

UNBALANCE

GROWTH THEORY

**Balance & Unbalance Growth theory, Rodan ,
Nurkse big push**

1. BALANCE GROWTH THEORY

INTRO--

Balance growth theory developed by **Ragnar Nurkse**, and supported by **Lewis, Allyn Young and Rodan**.

Balance growth means investment in **depressed sector** of an economy, lead to harmonious **growth of different sectors of the economy**.

Acc. To this theory govt of any UDC's need make large investment in a number of industries simultaneously.

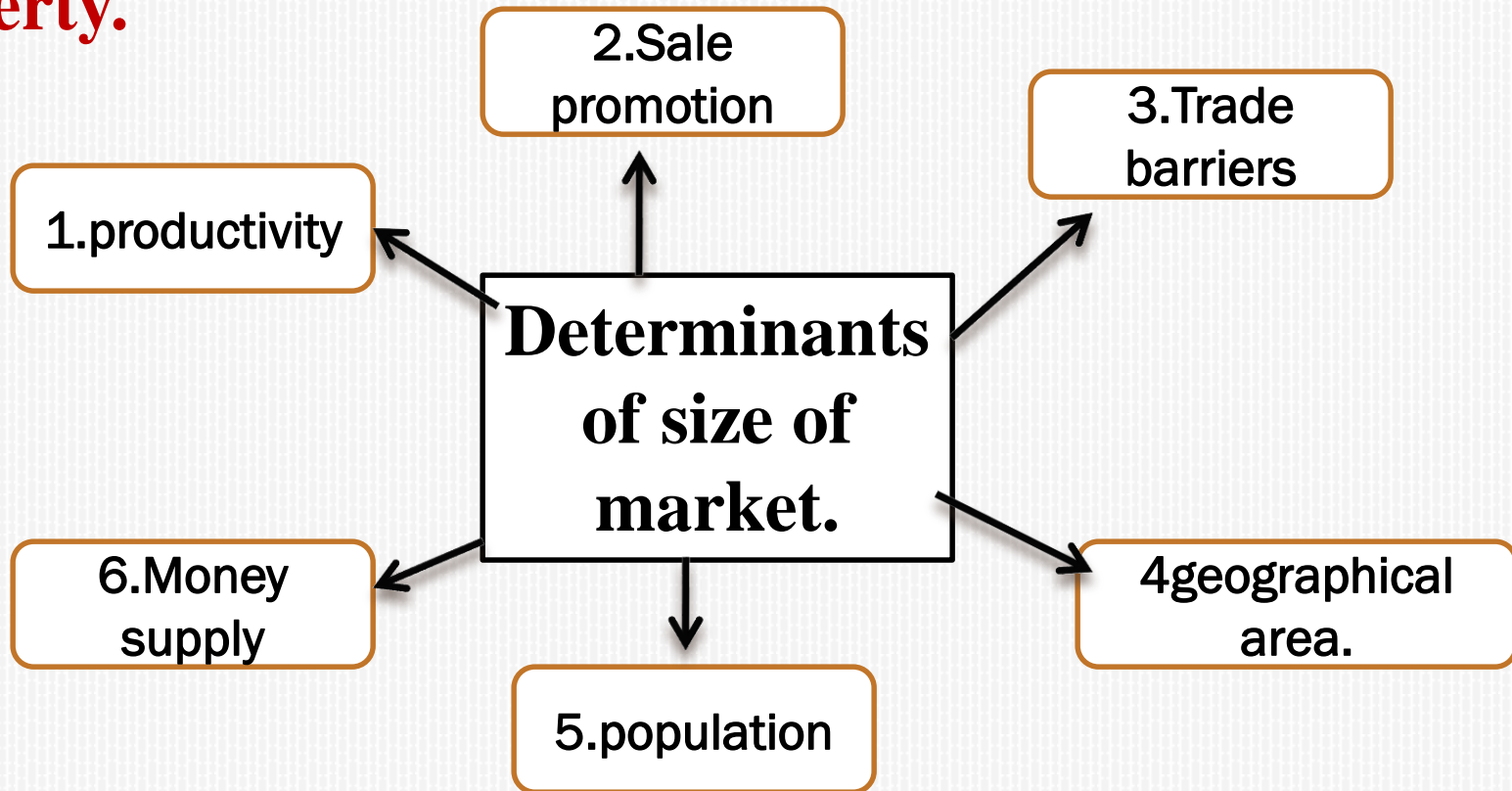
This will increase the size of market.

-increase productivity.

And provide incentives to pvt sector to invest.

Determinants of size of market.

Acc. To Nurkse expending mkt size will lead to increase inducement to invest– it will break **vicious circle of poverty.**



Acc. To Nurkse UDC's should be increase their productivity and enlarge the market size by export.

Nurkse primarily focused on **productivity.**

In B.G theory growth rate of consumption, income and investment should be equal.(C=Y=I)

B.G tackle **demand side problems.**

Balance growth is a **dynamic and elastic model.**

This theory applicable in UDC's.

Investment is necessary to overcome indivisibilities on both demand and supply side.

Indivisibility on supply side is lumpiness of capital(SOC).

Indi. On demand side is – limitation imposed by size of market.

Nurkse used big push theory of Rodan for three indivisibilities.

1.Indivisibilities of production function.

2.ind. Of demand.

3.Indi. Of supply for saving.

1. Rodan – simultaneous development of industrialisation.

2. Lewis- balance bw agriculture and industry.

Acc. To Lewis- in UDC's investment range should be 5% to 10% but actual required 15% to 20% of N.Y.

Inducement to invest depend upon size of market.

Demand for goods and size of mkt depend upon purchasing power.

2. UNBALANCE GROWTH THEORY

INTRO--

This theory given by **Hirschman** and further supported by **Singer, Kindleberger, Paul Streeten and Rostow**.

Book- the strategy of economic development.

Acc. To Hirschman- development is the chain of disequilibrium.

Unbalance growth means- unequal growth of investment , income and consumption.

$$\frac{\Delta I}{I} > \frac{\Delta Y}{Y} > \frac{\Delta C}{C}$$

This theory is applicable in UDC's.

Acc. To him – investment should be made in strategic industries and leading sector.

Hirschman divide investment into two part.

1.convergent.

It create external economies.

It is profit motive and undertaken by the pvt entrepreneurs.

It include directly productive activities(DPA)

Ie. Expenditure on final production.

2.divergent.

It create less external economies.

It is helpful in social welfare. And undertaken by govt.

Include social overhead cost.(SOC)

Expenditure on railway.

If economy expending SOC then cost of production decreases and it is called **pressure relieving Investment.**

If expending DPA then cost of production increase and it is called **pressure creating investment.**

Hirschman introduced two linkages effects.

**1.Backward
linkages effects.**

**It is made on earlier stage of
production.**

Ie- raw matirial.

Leather

**2.forward
linkages effects.**

**It is made on final stage of
production.**

**Ie- Sale of the product,
transportation.**

shoes

Linkages are inter-industry complementary.

3.BIG PUSH THEORY.

Rodan was first economist to introduced famous **coordination failure model.**(Big push)

Acc. To him for balance growth rate of all sector we need **big amount of investment**, which enlarge the market.

This theory is applicable in UDC's .

Economy is not able to export.

Acc.to him major hurdle in the process of industrialization is the **small size of market.**

Rodan used **three indivisibilities** to remove hurdles-

1. Indivisibilities of production function.

2. ind. Of demand.

3. Indi. Of supply for saving.

Big push theory is based on **external economies**.

To overcome the problem of coordination failure there is need **big push**.

4, VICIOUS CIRCLE OF POVERTY

Concept given by **Nurkse**.

To break down the vicious circle of poverty measure **both demand side and supply side**.

Supply side- flow of saving formation ,capital formation, and role of fiscal policy.

CONCEALED SAVING POTENTIAL

Given by Nurkse.

Acc.to him disguised unemployment is potential source of saving/surplus.

Disguised unemp. Is potential source of saving but actual source.

15. The basic rationale of the theory of 'Big-Push' is based upon the idea of

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(1) size of population

(2) external economies

(3) internal economies

(4) None of the above

(GDP)

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14. Who among the following, originally, formulated the 'Turnpike Theorem' ?

(1) Dorfman, Samuelson and Solow

(2) Radner

(3) Koopmans

(4) Von Neumann and Morgenstern

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15. Backward and forward linkages are relevant for which kind of growth strategy ?

(1) Unbalanced growth

(2) Trickle down growth

(3) Balanced growth

(4) Equilibrium growth

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16. 'Reserve Army of labour' term was used by who among the following economists ?

(1) J. Schumpeter

(2) J.R. Hicks

(3) Karl Marx

(4) T.R. Malthus

GROWTH AND DEVELOPMENT.

TOPIC- 6

**INPUT -OUTPUT
MODEL**

Shadow prices and dependency theory.

