

Determinants of Economic Growth

Economic Factors.

1. Natural Resources.

- ⊕ = Principal factor affecting the development of an economy is the natural resources or land. Land and its composition i.e., fertility of land, forest wealth, minerals, climate, water resources, sea resources etc.
- = Proper utilization of these resources.
- = Deficient in exploitation of resources, a country cannot develop.

2. Capital Accumulation.

- = Capital means the stock of physical reproducible factors of production.
- = When the capital stock increases with the passage of time that is called capital accumulation or capital formation.
- = Capital formation = ① existence of real saving
② existence of credit and financial institutions to mobilise savings
③ To use these savings for investment in capital goods.
- = capital formation reflects effective demand.

3. Organisation

- = It relates to optimum use of factors of production in economic activities.
- = Role of entrepreneurs in the process of production.



4. Technological Progress

- ⇒ Changes in technology lead to increase in the productivity of labour, capital and other factors of production.
- ⇒ Scientific discovery, innovation and invention, technical knowledge lead to economic development.

5. Division of labour and scale of production.

When the scale of production is large, there is greater specialisation and division of labour. As a result production increases and the rate of economic progress is accelerated.

6. Structural changes.

Structural changes imply the transition from traditional society to knowledge society of today which increases employment opportunities, higher labour productivity and stock of capital. Innovation, technical skills are also the key determinants of economic growth.

Non-Economic Factors.

1. Social factors - Social attitude, values and institutions should be changed. Joint family, caste system, kinship, religious dogmas should be modified.
Asian drama - modernisation values = social, cultural and psychological framework.
2. Human Factor.
3. Political and Administrative factors.