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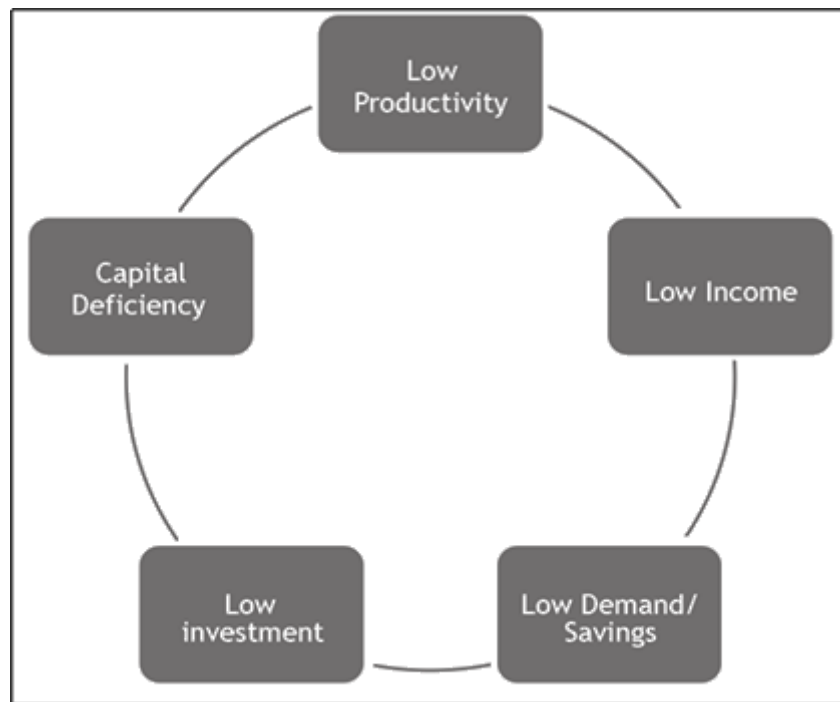
Balanced Growth: Introduction, Vicious Circle of Poverty and Indivisibilities

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Introduction

- Major obstacle to economic growth and development – Vicious cycle of poverty.
- All sectors should grow simultaneously and proportionately so that consumption, investment and income also grow at the same rates, i.e.. $\frac{\Delta C}{C} = \frac{\Delta I}{I} = \frac{\Delta Y}{Y}$.
- Large scale expansion of all activities.

Vicious Circle of Poverty



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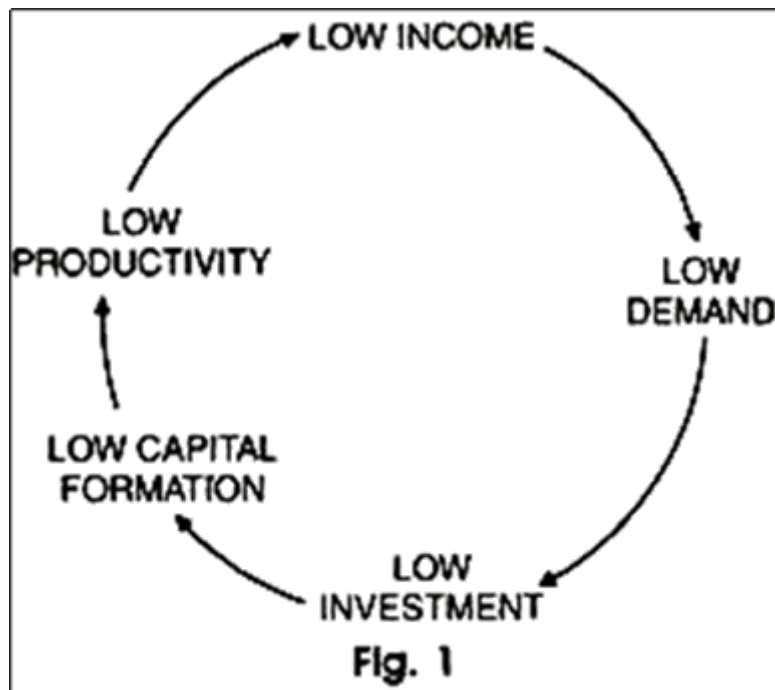
- Definition - “Set of factors or events by which poverty, once started, is likely to continue unless there is outside intervention.”
- Low income → low savings → low investment → less production.
- Low production → low income → low demand for goods, resulting in smaller markets (limited extent of markets) .
- Due to low demand, no inducement to invest (because of low purchasing power)
- Low purchasing power due to low real income
- Low real income due to low productivity
- Low productivity due to insufficient capital

- To break the vicious circle of poverty, a balance between demand and supply has to be restored.

Indivisibilities

On Demand Side

Problem of limited (small) extent of market



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On Supply Side

Problem of low capital formation

Low-Income → Low Savings → Low Investment → Low Capital → Formation → Low Productivity → Low Income.

How to Break Vicious Circle

- Complementary Demand
- Government Intervention
- External economies
- Balanced growth

Essential Conditions

- State intervention
- Formulation and implementation of plans
- Coordination among different sectors
- Public cooperation

MCQs

Q 1 – The theory of Balanced Growth was given by:

- a) M. Friedman
- b) Ragnar Nurkse
- c) Thomas R. Malthus
- d) John Stuart Mill

Ans – b) Ragnar Nurkse

Q 2 – The vicious circle of poverty states that –

- a) Excess government assistance in welfare programs causes problems in the economy
- b) Low income levels create pressure for cheaper imports
- c) Low income levels create pressure for money creation in low income groups
- d) Low per capita income leads to low savings and low investment causing low production which causes low income

Ans – d) Low per capita income leads to low savings and low investment causing low production which causes low income

Q 3 – Which of the following about Balanced Growth theory is correct?

- a) All sectors in UDCs are independent
- b) There should be a balance between growth in developed and underdeveloped countries
- c) All sectors should grow simultaneously

d) None of the above

Ans - c) All sectors should grow simultaneously

Q 4 – Which of the following is NOT essential for balanced growth?

a) No intervention by the state

b) Coordination among different sectors

c) Public cooperation

d) State intervention

Ans – a) No intervention by the state

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 Manishika

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