Examrace

Unbalanced Growth Part 1: Explanation of the Theory, Convergent and Divergent Series

Explanation of the Theory

- Strategy for underdeveloped countries
- Underdeveloped countries suffer from lack of resources and infrastructure
- Investment should be made in strategic and leading sectors only
- No simultaneous investment in all sectors and/or industries

Why Unbalanced Growth?

External Economies

Benefits enjoyed by all firms in an industry such as decline in marginal costs and cost of raw materials, better transportation, etc. resulting from expansion of industry over time

Growth of Industry $A \rightarrow$ Growth of Industry B

Growth of Industry $B \rightarrow$ Growth of Industry C

… And so, on

Complementarities

Growth of firm A may lead to:

- an increase in demand for goods of firms B and C,
- reduction in marginal cost of those firms, and
- technical complementarities as well

Convergent and Divergent Series

Convergent series of investment –

- Projects which withdraw more external economies than they can create
- Made by private enterprises
- Influenced by profit motive
- Made in Directly Productive Activities (DPA)

- Example – Investment in agriculture

Divergent series of investment –

- Projects which withdraw less external economies than they can create
- Undertaken by government agencies
- Influenced by social profitability
- Made in Social Overhead Capital (SOC)
- Example – Investment in health care

Unbalancing with SOC

- SOC – basic services of the economy
- Examples – Education, public health, transport, communication, power, etc.
- Investment in SOC is made by public agencies
- When sequence of investment is SOC $\rightarrow$ DPA , it is known as “pressure relieving investment” or “development via excess capacity of SOC” .

Unbalancing with DPA

- DPA – Investments which lead to direct increase in supply of goods and services
- Examples - Investment in agriculture and mining
- Made by private entrepreneurs
- Sequence of investment from DPA $\rightarrow$ SOC is called “pressure creating investment” or “development via shortage of SOC” .

MCQs

Q 1 – Who propounded the Unbalanced growth theory?

1) M. Friedman

2) A. Hirschman

3) Leontief

4) Amartya Sen

Answer – 2) A. Hirschman

Q 2 – What is Social Overhead Capital?

1) Due expenses of the government

2) The capital required by the private enterprises to function in the long run

3) Those basic services of the economy without which the economy cannot function

4) Investments which lead to direct increase in the supply of goods and services of the economy

Ans – 3) Those basic services of the economy without which the economy cannot function

Q 3 - Sequence of investment from DPA → SOC is called "pressure _________ investment" . Fill in the blank with appropriate term:

1) relieving

2) exposing

3) releasing

4) creating

Ans – 4) creating

Q 4 – Which series of investment withdraw/appropriate more economies than they create?

1) Convergent series

2) Co-verging series

3) Divergent series

4) Coinciding series

Ans – 1) Convergent series

Q 5 – The Unbalanced Growth Theory is a development strategy for _________ countries. Fill the blank with the correct word (s) .

1) Developing

2) Developed and developing

3) Underdeveloped

4) Only developed

Ans – 3) Underdeveloped

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#theory

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