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BA Economics Honours | Semester V | Calicut University

Growth Theories in Economics

Course Code: ECO5CJ303 • Module 1

Module I: The Concept of Economic Growth

Economic growth examines the sustained long-term expansion of a nation's productive capacity, potential real output, and material welfare over successive generations. Understanding the underlying drivers, measurement methodologies, and institutional foundations of economic growth is central to addressing global inequality and development disparities.

Unit 1 & 2: Economic Growth vs. Economic Development

A fundamental conceptual distinction exists between growth and development:

- **Economic Growth:** A unidimensional, quantitative concept measuring the annual percentage increase in real Gross Domestic Product (GDP) or real per capita income over time ($g = \frac{\Delta Y}{Y}$). It signifies the physical expansion of production possibilities.
- **Economic Development:** A multidimensional, qualitative and quantitative process encompassing economic growth accompanied by structural transformation, technological upgrading, reduction of poverty and income inequality, expansion of political and economic freedoms (Amartya Sen's capability approach), and institutional improvements.
- **Inclusive and Sustainable Growth:** Growth that generates widespread employment opportunities, broadens access to public goods, protects vulnerable socio-economic strata, and preserves ecological capital for future generations.

Unit 3 & 4: Measurement of Growth and Characteristics of Developing Economies

> **Growth is quantified through**
>
> - **Real GDP and Real Per Capita GDP: Adjusted for price fluctuations using GDP deflators. Purchasing Power Parity (PPP) adjustments account for international differences in domestic price levels of non-traded goods.**
> - **Green GDP: Adjusts standard national income accounts for environmental degradation, natural resource depletion, and ecological remediation costs ($GreenGDP = GDP - DepreciationofNaturalCapital$).**

Developing nations typically exhibit distinct structural features:

- Low levels of labor productivity and per capita real income.
- High agricultural dependency and Dualistic Economic Structures (traditional subsistence vs modern industrial sectors).
- Demographic burdens characterized by high dependency ratios.
- Substantial informal employment and underemployment.
- Capital deficiency, narrow domestic financial depth, and infrastructure deficits.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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Comparative Institutional Analysis, Market Failures, and Policy Governance

Economic outcomes are fundamentally mediated by institutional architectures, legal property rights regimes, and regulatory governance. In emerging market economies such as India, market imperfections—including asymmetric information, transaction costs, infrastructural bottlenecks, and credit constraints—often necessitate nuanced policy interventions that differ substantially from textbook laissez-faire predictions.

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Market Efficiency	Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction.	Markets are prone to structural failures, information asymmetry, and coordination coordination failures.	Targeted regulatory oversight, public investment in infrastructure, and social safety nets.
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
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Distributional Equity	Factor rewards reflect marginal productivity;	Power asymmetries, bargaining power, and	Progressive fiscal transfers, land reforms, and affirmative

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	distribution is secondary to allocative efficiency.	historical wealth accumulation shape distribution.	human capital investments.
Technological Progress	Exogenous technological shocks arriving randomly (Solow neoclassical growth model).	Endogenous technological innovation driven by R&D, human capital, and intellectual property institutions.	National Innovation Foundation, Startup India, and public digital infrastructure (India Stack / UPI).

Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

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However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

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