

Economic Growth Questions

1. Is economic growth good?
Under what circumstances?
For whom?
2. I start a new company producing a new product leading to company expansion and exports. Good or bad?
3. I start a new company to compete with existing Turkish producers of washing machines. Within 5 years I have taken over 50% of the market. Good or bad?
4. I decide to purchase and commercialise a natural resource and after only 5 years
increase regional employment by 200%
increase regional growth by 40%
increase regional income per capita by 65%
(I also make a massive personal profit)
Economically good or bad?
5. An oil tanker runs onto rocks off the Greenland coast
Economically good or bad?
6. I crash my car and spend 6 months in hospital
Economically good or bad?

Economic Growth

Advantages

1. Increased living standards
2. Growth is cumulative (at 3% per year, the economy doubles in 24 years)
3. Helps government finances via increased tax revenues and decreasing expenditure
4. Growth encourages investment which increases productive capacity

Disadvantages

1. Growth can lead to inflation. Rising prices may reduce international competitiveness
2. Growth can cause negative externalities (pollution, congestion, poorer living environment)
3. Benefits of growth may not be evenly distributed
4. Growth can lead to an over-exploitation of finite economic resources

GPI (Genuine Progress Indicator)

According to Lawn's model, the "costs" of economic activity include the following potential harmful effects:

- * Cost of resource depletion
- * Cost of crime
- * Cost of ozone depletion
- * Cost of family breakdown
- * Cost of air, water, and noise pollution
- * Loss of farmland
- * Loss of wetlands

Green GDP

Green GDP= GDP minus environmental consequences of that growth.

In 2004, Wen Jiabao, the Chinese premier, replaced GDP with green GDP.
Cost of pollution: 512 billion yuan (\$66.3 billion), or 3% GDP

Environmental damage and resource depletion was far more costly than anticipated, the government withdrew its support for the Green GDP methodology and suppressed the 2005 report, which had been due out in March, 2007.

Independent estimates of the cost to China of environmental degradation and resource depletion have for the last decade ranged from 8 to 12 percentage points of GDP growth. These estimates support the idea that, by this measure at least, the growth of the Chinese economy is close to zero.

This only took into account negative environmental externalities and didn't include negative social externalities (effect of air and water pollution on health, working conditions...)

HDI Human Development Index (from 2010)

- A long and healthy life: Life expectancy at birth
- Education index: Mean years of schooling and Expected years of schooling
- A decent standard of living: GNI per capita (PPP US\$)

$$1. \text{ Life Expectancy Index (LEI)} = \frac{\text{LE} - 20}{82.3 - 20}$$

$$2. \text{ Education Index (EI)} = \frac{\sqrt{\text{MYSI} \cdot \text{EYSI}}}{0.951}$$

$$2.1 \text{ Mean Years of Schooling Index (MYSI)} = \frac{\text{MYS}}{13.2}$$

$$2.2 \text{ Expected Years of Schooling Index (EYSI)} = \frac{\text{EYS}}{20.6}$$

$$3. \text{ Income Index (II)} = \frac{\ln(\text{GNIpc}) - \ln(100)}{\ln(107,721) - \ln(100)}$$

Finally, the HDI is the geometric mean of the previous three normalized indices:

$$\text{HDI} = \sqrt[3]{\text{LEI} \cdot \text{EI} \cdot \text{II}}$$