Chapter 7: Economic Growth & Development

7.1 Economic Growth

The **continuous increase in the Real GDP** of a country. It means the capacity to produce goods and services (potential output) keeps expanding in the long run.

Economic Growth Rate

$$= \frac{\text{(Real GDP this year} - \text{Real GDP last year)}}{\text{Real GDP last year}} * 100$$

Quick example:

- Real GDP 2018 = $1000bn, Real GDP 2019 = $1050bn
- Growth rate = (1050 − 1000)/1000 × 100 = 5%

7.1.1 Determinants of Economic Growth

- **Factor Endowment:** Physical capital, Human capital, Natural capital, Social capital
- **Productivity:** Technology, Innovation, Investment in R&D
- **Economic Stability**
- **Political Stability**
- **Good Governance**
- **Incentives**

7.1.2 Importance of Economic Growth (Benefits)

- Increase in rate of employment
- Increase in standard of living
- Better management of government finance
- Enhancement of investment
- Higher profitability → higher entrepreneur confidence

7.1.3 Negative Impacts of Economic Growth

- Adverse impact on environment
- Wider income disparities
- Wider regional disparities
- Increased inflationary pressure
- Increased current consumption

Structural changes alongside growth:

1. **Decline in relative contribution of Agriculture Sector**

2. Increase in relative contribution of Industry Sector

3.Services becomes the dominant sector.

7.2 Economic Development

The **quantitative and qualitative** improvement of all spheres of life — economic, political, social, cultural. It is a **multidimensional** process and an evolutionary process of economic growth (reflects structural change alongside growth).

Qualitative changes under Economic Development

- Modernization
- Improved production methods & technology
- Increased momentum in industrialization
- Improved productivity of factor inputs
- Decline in poverty, unemployment & income disparities
- Changes in structure of production sector

7.2.1 Growth vs Development — Key Differences

Economic Growth	Economic Development
Rise in real GDP (productive capacity)	Improvement in quality of human life and growth
Quantitative only	Quantitative and Qualitative
Measured by GDP / growth rate	Measured by HDI & other multidimensional indices
Pre-condition for development	Broader, evolutionary outcome of growth

7.3 Human Development

The enhancement of human abilities **by the people themselves**, using those abilities in economic, social, cultural and political spheres, while ensuring the same rights for future generations.

Profile of Human Development

- Income
- Education
- Health conditions
- Political freedom
- Healthy social relations
- Empowerment
- Equality

7.4 Sustainable Development

Definition: Meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. Requires **balanced development** across economic, social and environmental spheres.

7.4.1 Profile of Sustainable Development

- **Economic Profile:**
  Efficiency
  Stability
- **Environment Profile:**
  Favourable sanitary conditions
  Protection of non-renewable resources
  Efficient use of non-renewable resources
- **Social Profile:**
  Cooperation
  Justice
  Social coexistence

Empowerment
Cultural integrity
Social mobility

7.5 Sustainable Development & Changing Role of Accounting/Business

- Businesses must channel resources for production with future generations in mind
- Role of accounting must adapt in line with sustainable development
- Enterprises should pursue a balanced outcome across environmental, social & economic spheres — not favour one area over the others

7.6 New Trends in the Sri Lankan Economy

- GDP structure: agriculture's share is decreasing, manufacturing & services share is increasing
- Employment: agriculture employment share is decreasing , industry & services shares is increasing
- Green Economy
- Digital Economy
- Sri Lanka moved from lower-middle-income → upper-middle-income status
- Working-age population declining, but labour force participation rate rising
- Open economic policies → rise in foreign employment → surge in foreign remittances
- Continuous growth in tourism — a major foreign exchange earner, with tourist arrivals rising steadily

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