Economic Growth Essay, Research Paper

Economic growth refers to the rate of increase in the total production of goods and services within an economy. Economic growth increases the productivity capacity of an economy, thereby allowing more wants to be satisfied. A growing economy increases employment opportunities, stimulates business enterprise and innovation. A sustained economic growth is fundamental to any nation wishing to raise its standard of living and provide a greater well being for all.

Gross domestic product (GDP) is the monetary value of all final goods and services produced in Australia over a specific period of time, usually a year. It is the total value of production within the economy. The total value of production is the total value of the final goods or services less the cost of intermediate goods purchased.

GDP at market prices (nominal GDP) measures the value of total production at the present price level. That is, GDP at market prices measures both the total physical volume of goods and services produced and the prices at which these goods and services are sold. GDP at market prices has considerable usefulness when measuring the growth rates and relative importance of different industries or sectors within the economy. The method for measuring GDP at market prices is implied by the following formula; [(current year quantity) x (Current year price)].

However GDP at constant prices is the most common method of measuring economic growth. GDP at constant prices excludes the effect of price variations and allows for the measurement or comparison of real or actual production levels. Because of this, GDP at constant prices is usually referred to as real GDP. Real GDP is measured by the following formula; [(current year quantity) x (based year price)]. A more reliable measure of economic growth is real GDP per capita; this measurement takes into account both the total production of the nation and the total population. Real GDP per capita measures the real income per head of the population. This can be measured by the following formula; Per capita nominal GDP = Nominal GDP / Population, Per capita real GDP = Real GDP / Population.

Seven factors determine economic growth. Natural resources such as land, mineral deposits, waterways; climatic conditions provide an essential foundation to economic growth. Combined with the other resources of capital, labour and enterprises, natural resources can be developed and organised to increase the productive capacity if the nation. Consequently the quality and size of the labour force is a major determinant of economic growth. Education and vocational training are essential the growth potential of Australia. The promotion of education and job training schemes increase the knowledge, skills and flexibility of the workforce that contributes to potentially higher levels of productivity and efficiency. Wether from natural increase or immigration population growth can cause a higher level of economic growth. An increasing population requires increased public spending on housing, education and other social needs while businesses expectations of increased demand induces higher levels of private investments. Research, innovation and technological developements are essential to any economy wishing to increase their long-term productive capacity. Improved technology lifts overall efficiency and raises the productive base to the economy. An important prerequisite for economic growth is capital accumulation. Private investment spending on plant, machinery and equipment ensures the future production of goods and services. The greater the degree of capital accumulation the greater the potential for increased production.

High levels of inflation cause market interest rates to rise and this upward movement ca aversively affect business confidence and levels of investment. Periods of inflation generally disadvantage companies by increasing costs and squeezing business profits. The political stability of the nation is a vital factor in determining economic growth and the standard of living. Countries experiencing civil disturbance and political instability are unable to effectively sustain efficient production. As a result these countries are disadvantaged through their inability ti attract foreign investment and export markets. Subsequently the overseas sector is a key factor in determining economic growth within Australia. Exports sales form a substantial part of Australia?s GDP and foreign capital inflow continues to be essential to Australia?s total investment and the financing of imports. The inflow of funds to promote production is not the only stimulus to growth in Australia. Merchandise trade provides a greater variety and volume of goods and services, allowing Australia to benefit in terms of improved living standards. Trade also enables domestic industry to specialise and raise production through economies of scales. The overseas sector also provides up to date foreign technology and enterprises to Australia through direct foreign investment.

The importance of a higher economic growth rate is essential to improve the basic living of the population and provide a greater variety of choices. Basic benefits of a higher economic growth rate may include better health care and a better infrastructure.

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