

Development economics final exam

Economics



**ASSIGN
BUSTER**

1 . Why is the assumption of land as a homogeneous factor of production no longer considered tenable? In classical economics, land along with labor and capital are considered as one of the factors of production. Land is often regarded as the original factor of production because it is found in nature and therefore not produced and cannot be derived from anything else. As a natural good, land was considered the source of wealth thus agriculture was the only sector that could increase it.

Thus follows a theory of production from the middle age, wherein production is understood as an increase of matter, which is only achievable through agriculture and the delivery of raw materials. Land as a homogeneous factor is rooted on the following concepts: Land as having a perfectly elastic supply thus land is always readily available and does not decrease Land is not productive on its own therefore land must be used as a means of production; and the only way to increase land is through agriculture or raw material resources such as mining.

The reason that the assumption of land as a homogeneous factor of production is no longer tenable is that, in recent years, land has been given a wider definition, thus it is not only limited to areas which are useful for agriculture or mining, but also above and beyond the actual land that can be seen such as forests, bodies of water, mineral resources, recreational areas. Land is given multiple demands which are not limited to agriculture and mining alone. Today, in contrast to classical economics, land is used for building, as capital for production of goods and services, for recreational purposes, etc.

Attached to the idea of multiplicity is the concept of value. Such an understanding allows one to realize that besides land being natural, it is also location-specific and dependable. Value is classified into: Non-use value refers to the benefit humanity receives from the continued existence of environmental assets and does not need to be experienced. This is further classified into either (1) option value, wherein the asset can be taken advantage of at a future time or (2) quasi- option value, wherein asset can be kept for future use, thereby making the valuation difficult to estimate.

On the other hand, the use-value is also classified into non- extractive or extractive. (1) Non-extractive covers the services that an environmental set provides without the need to extract goods or harvest anything from them. Monetary gain is not immediate and requires planning, research and creativity to translate this value into something profitable as a livelihood, which is often realized in the long-run. (2) Extractive use or consumption use value refers to the use of goods that can be extracted directly from locality.

This is the most common type of business valuation. Excessive extraction such as in mining and forestry, however, can deplete the asset. Compared to non-extractive use, monetary gains of extractive use are quick and certain. Non-extractive can be further divided into (1) recreational, which refers to the leisure services which the sites directly provide such as snorkeling, skiing, swimming, surfing, etc and (2) aesthetic, wherein the value derives from the sensory experience of natural sites such as the case with parks, zoos, mountains, etc.

In conclusion, land, as a factor of production is important in the process of economic development since the process involves the increasing utilization of natural resources. A modern sector follows a circular flow of production, which involves a greater intensity in the use of natural resources. Thus, a single increase in reduction could mean a significant increase in the use of natural resources. The challenge therefore is to have sustainable utilization of dependable resources. A solution is to minimize use of dependable resources. Another is to market certain resources in order to protect them.

In any case, such action must be taken in order to ensure proper utilization of land.

2. What is the low-level equilibrium trap? To what extent is population a problem insofar as long-term economic development is concerned? The low level equilibrium trap is based on Richard Nelson's theory, which explains the relationship between population growth and income growth. As income per capita remains below critical level, then a population growth rate that exceeds that certain income growth rate will always bring the economy back to a low level equilibrium trap.

. What is peasant rationality? How can one justify subsistence production as rational economic behavior

4. What caution does the Fee-Rains model emphasize in the migration process from the rural to urban areas?

5. What is the importance that finance and capital play in economic development?

6. What is the difference between inward and outward-oriented industrialization?

7. What precise roles does governance play in process of development?