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1. ***(c) What exactly is economic growth and why do some parts of the world grow more rapidly than others?***

Economic growth occurs when aggregate output is rising, and job opportunities are created and expanded to permit a rise in income and mobility. (Li, 2017) In any economy, productive activity is undertaken in three broad sectors: agriculture, manufacturing and services. In all of these sectors, a large number of people work and add value to generate saleable output. When we make a valuation of all these outputs and arrive at a number, it is called the Gross Domestic Product (GDP). (IMF, 2020) Every country endeavour to increase the GDP of its economy, a key indicator of economic growth. If the growth of GDP is higher than the growth of population, we say that the per capita income of that economy is improving and the people are increasingly better off, economically.

Broadly speaking, there are six theories of economic growth. In Adam Smith's Classical Theory of Economics, he emphasized the role of increasing returns to scale, also known as economies of scale, or specialization. Neo-classical theory, on the other hand, emphasizes growth based on supply-side factors such as labour productivity, size of the workforce, and factor inputs. Endogenous growth theories posit that the rate of economic growth is strongly influenced by human capital and technological innovation. Unlike these other theories, which ignore the role of aggregate demand, in Keynesian demand-side economics, it is argued that aggregate demand influences economic growth in the short and medium-term, as recessions can cause hysteresis effects and lower long-term economic growth. According to mercantilism, the wealth of a nation is determined by the accumulation of gold and running trade surplus. Finally, limits to growth puts forth that long-term economic growth will be limited by resource degradation and global warming.

Digging deeper into the aforementioned theories, one can infer that economic development and the growth of a country are influenced by four factors: human resources, physical capital, natural resources and technology. Highly developed countries have governments that focus on investing in these areas.

When we talk of human resources, it is a combination of physical and intellectual capability that is needed in productive activities. One of the reasons the United States of America is a developed country, for example, is because of its emphasis on human resources. By allowing immigration from across the globe, the US has managed to attract the most skilled from across the globe and consequently succeeded in leveraging these talents. On the other hand, Japan, which currently has a large ageing population, is struggling to increase the size of its workforce. India, meanwhile, is reaping the benefit of demographic dividend with its high percentage of people in the productive age group.

Unlike countries that rely on their human resources, China has allowed private economic activity under the strict policy guideline of the state; and it has bolstered its economic growth by scaling up its physical capital or production capacity, enabling it to carry out large scale operations to produce goods at the lowest possible prices and thus capture the global market. Here we see a strong role of the state in steering a nurturing climate for investment in business and the economy.

Another example are the OPEC countries like Iraq and Iran, which are endowed with substantial natural oil reserves; since this commodity is scarce, they have been able to use this resource to dictate the price in the global market. Similarly, Japan has been highly successful because of its technological advancement, particularly in the area of electronics. Despite being a small country, Israel has become an economic powerhouse because of its focus on defence equipment manufacturing. Generally speaking, investment in R&D and innovation allows for the advent of novel products that capture the global market through patents and contribute to economic growth.

It is generally observed that in developed countries, the service sector, or human resource, is the primary contributor to GDP; while in underdeveloped countries, the overall GDP contribution from the agricultural sector (natural resources) is the highest. One of the reasons underdeveloped countries remain underdeveloped is because of the low value of agricultural products. For example, the service sector makes up 75% of Singapore's GDP, while 60% of the GDP of Somalia, a much less developed, comes from agriculture. (Bajpai, 2020) It is relevant to mention here that agriculture is highly susceptible to natural calamities like floods, famines, and cyclones. Therefore, its contribution to the GDP is also much more prone to volatility and may sway adversely depending upon the circumstances.

Some economists believe that economic success is also highly dependent on the entrepreneurial culture of the country, and the support system to nurture entrepreneurial spirit and endeavours. The USA has been a frontrunner in this aspect. With this idea in mind, India recently launched "Start-up India", a scheme to fire up this entrepreneurial spirit.

A country's fiscal policy and monetary policy also directly influence value creation. Besides this policy support, a well-developed capital market is essential for economic activity. A producer should have easy access to money which he can invest in his business to generate profit.

One of the other factors that affect GDP is the extent to which the domestic economy is open to the global economy. In a closed economy, the opportunity for growth is limited, and thus a clear focus on exports is critical. The United States and China have emerged as the biggest exporters in the world. Trade negotiations are now an essential facet of diplomacy. Each country wants to get access to the market of other countries, leading, increasingly, to trade wars and restrictive practices from the big players.

However, it must be highlighted here that not all countries strive solely for economic growth. There are countries which focus on citizens' happiness as they believe wealth is a misplaced priority. For instance, Bhutan gives more importance to Gross National Happiness (GNH) than GDP. It is relevant here to mention the Easterlin Paradox (1970) in which the author argued that life satisfaction does rise with average incomes, but only up to a point. Beyond that, the marginal utility gain in happiness declines[5].

Moreover, perhaps there is sound logic in considering other factors, aside from the relentless pursuit of a growing GDP, at all costs. The pursuit of reckless economic growth has caused irreparable damage to the ecology, flora and fauna of the globe. Some countries are overexploiting their natural resources, leading to poisonous carbon emission and the subsequent global warming and climatic change. Though most of the countries appreciate the long-term consequences of such exploitation, many nations, big and small, have not shown enough commitment to deal with such urgent issues.

While in some countries the GDP has been increasing, in other countries the inequality is also on the rise. The rich are getting richer and the poor, poorer. There is an ocean of poverty with some islands of prosperity. We need a more equitable world, where the strong thrive, and the weak survive. The United Nations, appropriately, has come up with 17 sustainable goals, based on the underlying philosophy that only social and human development – in addition to economic growth – are crucial for a happier, better world.

Additionally, the Coronavirus pandemic has exposed the fault lines in many nations. We cannot take nature for granted, and we must rethink sustainable prosperity. Keynes was prophetic when he said, "The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or preoccupied, by our real problems - the problems of life and of human relations, of creation and behaviour and religion.” (Moynihan, 1997)

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2. (a) What does the concept of rationality mean in economics?

As per the Neoclassical theory of Economics, both individuals and firms are rational in their decision-making. This means that, when given multiple alternatives, they choose the one that gives them maximum satisfaction. Rationality is bound by the subjective assessment of the alternatives based on the preferences and desires of the decision-maker.

Let us consider two people, Zuben and Maria, who have $100 each. Zuben might spend the amount on watching movies and having dinner at restaurants. On the other hand, Maria might spend the whole amount purchasing books and magazines for her professional growth. From the point of view of Economics, both are perfectly rational.

In another example, throwing away leftover food is very common, but there is a segment of society which gives away such food to the poor. There are companies which take care of the logistics. The first group might believe it is morally incorrect to give away leftover food, whereas the second group might think - "let it fill the stomach of the poor rather than going into the waste bin." From the point of view of economics, again both are rational decisions.

In her essay, “The Objectivist Ethics,” Ayn Rand states, “Rationality is man’s basic virtue, the source of all his other virtues. The virtue of Rationality means the recognition and acceptance of reason as one’s only source of knowledge, one’s only judge of values and one’s only guide to action.”

Classical economists have developed their models with the above assumption of rationality. However, behavioural economists do not agree with this concept. According to rational choice theory, the rational person has self-control and is unmoved by emotional factors. However, behavioural economics acknowledges that people are emotional and easily distracted, and therefore, their behaviour does not always follow the predictions of economic models. Psychological factors and emotions influence the actions of individuals and can lead them to make decisions that may not appear to be entirely rational.

Also, in line with behavioural economics is Sigmund Freud's Motivation theory, wherein he posits that unconscious psychological forces, such as hidden desires and motives, shape an individual's behaviour, including their purchasing patterns. Therefore, to contribute to charity or not could be either a rational decision or one entirely motivated by other psychological factors. "Hyperbolic discounting" is one such theory which delves into the time frame of gratification. While some people want immediate gratification, there is another group who would like to postpone such gratification.

In this context, it is also relevant to draw from the work of Albert Camus, a philosopher of existentialism and positivism. According to Camus, the absurd is produced via conflict, a conflict between our expectation of a rational, just universe and the actual universe that it is quite indifferent to all of our expectations.

In short, rationality is a human construct and what we may observe is just the tip of the iceberg. A large part of our "rational" decision-making remains locked in our unconscious mind, the depths of which we may never truly know.

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3. ***Identify an area of economics that you think should be given more attention in the A-Level or IB syllabus and say why this is so.***

Labour Market Intervention

The IB syllabus depicts the dynamics of firms in different market structures under the topic “theory of firms”, wherein students study how firms behave in fixing the price, quantity, objectives and how they perform in terms of allocative and productive efficiencies in the product markets. However, the similar dynamics that occur in the labour market are not focused on in the IB syllabus.

Goods and services fulfil consumers' needs and wants. The firms producing the goods and services face competition in the goods market while selling their products. At the same time, they face a similar situation of competition while buying the factors of production such as land services, labour services, capital services and entrepreneurship services. Out of these, labour constitutes the most critical factor market because it deals with extensive human resources.

In the labour market, there exists perfect competition (large number of workers and large number of firms), trade unions acting as single suppliers of workers, and single employer/firms such as monopsony and finally dual monopoly in the labour market.

How firms behave vis-a-vis large numbers of workers, trade unions, and monopsony decides their wage rate. Wage rate affects the cost structure of the firms, which in turns affects the way the firms behave in the goods market. Thus, the factor markets and goods markets are interlinked.

It is equally important to understand how labour is paid in the labour market. Are they exploited or actually paid efficiently? This will profoundly affect their productivity and in turn, the efficiency of the firms. On the one hand, the trade union bargaining power should not be excessive to the point that they are setting the wage rate very high, and adversely affecting the cost structure of the firms. On the other hand, the existence of monopsony leads to exploitation of workers which may be profitable for the firms in the short-run. However, due to lower productivity, it will affect the firms adversely in the long-run.

Hence, with its clear and direct linkages not only to firm behaviour but even goods markets, it is highly pertinent for students to understand the rudiments of the labour market as a part of their microeconomics education.