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Theories Of Economic Growth

ABILOV GAYRAT

Doctoral student at National University of Uzbekistan

Abstract

In economics, there are two main areas of theories of economic growth: neo-Keynesian and neoclassical, and accordingly two types of models that characterize it. The neo-Keynesian direction arose on the basis of the ideas of John. M. Keynes about the relative instability of the capitalist economy and macroeconomic equilibrium. The neoclassical direction is rooted in the views of Adam Smith on the self-regulation of the market economy, the factor theory of J.B. Say and the theory of marginal productivity of economic factors of John Bates Clark.

Keywords: Economic growth, macroeconomics, theory, factors, capital, investment, consumption, savings.

The central problem of macroeconomics for Keynesian theory is the factors that determine the level and dynamics of national income, as well as its distribution to consumption and savings (it is then transformed into capital accumulation, that is, investment). It was precisely the movement of consumption and accumulation that Keynes linked the volume and dynamics of national income, the problem of its realization and the achievement of full employment.

The greater the investment, the smaller the size of consumption today and the greater the conditions and prerequisites for its increase in perspective. The search for a reasonable relationship between savings and consumption is one of the

permanent contradictions of economic growth and at the same time a condition for improving production and multiplying the national product.

For all models of the Keynesian trend is characterized by a general relationship between savings and investment. The growth rate of national income depends on the rate of accumulation and the effectiveness of investments.

Among the neo-Keynesian models in economics, the models of economic growth created by the English economist Roy Harrod (1900–1978) and the American economist of Russian origin Evsei Domar (1914–1997) were best known. Their proposed models are very similar, they analyze a long period of sustainable economic growth, one of the main conditions of which is equality of savings and investment. However, in the long run, there is a difference between today's savings and tomorrow's investments. For a number of reasons, not all savings turn into investments. The level and dynamics of savings and investments depend on the action of various factors. If savings are mainly determined by income growth, then investments depend on many variables: the state of the market, the level of interest rates, the amount of taxation, and the expected return on investment.

The sustainable growth rate of production, which is ensured by all population growth (this is one factor of economic growth) and all the possibilities for increasing labor productivity (this is the second growth factor), Harrod calls the natural growth rate, i.e. such that would have occurred if there were no chronic unemployment, underloading of capacities and economic crises. The third growth

factor Harrod considers the size of the accumulated capital and the coefficient of capital intensity.

The greater the value of savings, the greater the amount of investment and the higher the rate of economic growth. The relationship between capital intensity and economic growth rates is inverse. The natural growth rate represents (according to Harrod) the maximum possible growth rate of the economy given the population growth and technological capabilities.

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At the center of the neoclassical direction is the idea of equilibrium, based on an optimal market system, considered as a perfect self-regulating mechanism, which allows the best use of all production factors not only to an individual economic entity, but also to the economy as a whole.

In the real economic life of society, this balance is disturbed. However, equilibrium modeling allows us to find the deviation of real processes from the ideal. A significant contribution to the development of the theory of economic growth was made by the Nobel Prize laureate American Robert Solow (b. 1924), who modified the Cobb-Douglas production function by introducing one more factor — the level of technology development.

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