

Course: Economic Development in Pakistan-II (4660) Semester: Spring,2023

Level: MSc

Total Marks: 100

Pass Marks: 40

ASSIGNMENT No. 1

(Unit 1-5)

Q.1 Discuss the domestic financial resources required for economic development. (20)

Domestic financial resources play a crucial role in supporting economic development. These resources refer to the funds generated and mobilized within a country through various channels and instruments. Here are some key domestic financial resources required for economic development:

Domestic Savings: Domestic savings are an essential source of funds for investment and economic development. Savings can come from households, businesses, and the government. Higher savings rates indicate a larger pool of funds available for investment in productive sectors of the economy.

Tax Revenues: Taxation is a significant source of domestic financial resources for governments. Tax revenues are generated through various taxes, including income tax, corporate tax, value-added tax (VAT), customs duties, and property taxes. These revenues are used to finance public expenditure, infrastructure development, social welfare programs, and other economic development initiatives.

Financial Intermediation: Financial intermediaries such as banks, non-banking financial institutions, and capital markets facilitate the mobilization and allocation of domestic financial resources. They collect deposits from savers and provide loans and credit to borrowers, including individuals, businesses, and government entities. These intermediaries contribute to the efficient allocation of funds and facilitate investment in productive activities.

Development Finance Institutions (DFIs): DFIs are specialized financial institutions that focus on providing long-term financing for development projects. They play a crucial role in channeling funds towards infrastructure development, industrial projects, agriculture, and other priority sectors. DFIs can mobilize domestic financial resources and provide targeted financing for economic development initiatives.

Pension Funds and Insurance Companies: Pension funds and insurance companies manage significant pools of long-term savings. These funds can be directed towards productive investments in infrastructure, capital markets, and other sectors, supporting economic development. Governments can also utilize these funds for infrastructure financing through public-private partnerships.

Capital Markets: Domestic capital markets, including stock exchanges and bond markets, provide a platform for companies to raise capital by issuing shares or bonds. This enables businesses to finance expansion, invest in new projects, and promote economic growth. Well-functioning capital markets encourage domestic investment, attract foreign investment, and provide opportunities for domestic investors to participate in economic development.

Public-Private Partnerships (PPPs): PPPs involve collaboration between the public and private sectors to develop and finance infrastructure projects. In PPPs, private sector entities contribute domestic financial resources through equity investment, debt financing, and operations, while the government provides a conducive environment, regulatory frameworks, and long-term contractual arrangements. PPPs can help bridge the infrastructure funding gap and stimulate economic development.

Efficient mobilization, allocation, and utilization of domestic financial resources are crucial for sustainable economic development. Sound financial systems, effective regulation, and policy frameworks that promote savings, investment, and financial intermediation are key to harnessing domestic financial resources for economic growth and development.



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Q.2 Why it is said that developing countries mostly fall in the category of foreign exchange gap in the context of two-gap theory? Elaborate in detail.(20)

The two-gap theory is an economic theory that seeks to explain the challenges faced by developing countries in their pursuit of economic development. It suggests that developing countries often experience a foreign exchange gap, which refers to a situation where the demand for imports exceeds the country's ability to pay for them with its available foreign exchange reserves. Let's elaborate on why developing countries typically fall into the category of a foreign exchange gap according to the two-gap theory:

1. **Investment Gap:** Developing countries require significant investments in infrastructure, industries, and social sectors to stimulate economic growth and development. However, due to limited domestic savings and inadequate access to international capital markets, they face an investment gap. The investment gap arises when the domestic savings of a country are insufficient to finance the required level of investment. Developing countries often lack the necessary capital to fund large-scale investment projects.

2. **Foreign Exchange Gap:** The investment gap leads to a foreign exchange gap in developing countries. To finance the required investment, developing countries resort to borrowing from external sources, such as foreign loans and investments. However, borrowing leads to an increase in external debt, which must be repaid in foreign currency. As a result, the country's demand for imports (including capital goods, raw materials, and consumer goods)

surpasses its ability to generate sufficient foreign exchange earnings through exports and other sources.

3. Balance of Payments Imbalance: The foreign exchange gap contributes to an imbalance in the country's balance of payments, which is a record of all economic transactions between residents of one country and the rest of the world. Developing countries often experience a current account deficit, meaning their imports exceed their exports. The current account deficit necessitates foreign exchange to pay for the excess imports. If the country fails to bridge this gap, it can face a foreign exchange crisis, leading to devaluation of its currency, inflationary pressures, and a decline in living standards.

4. Structural Factors: Developing countries may also face structural factors that contribute to the foreign exchange gap. These include reliance on primary commodity exports, which are subject to price fluctuations and volatility in international markets. In addition, limited diversification of the economy, technological backwardness, and low productivity levels can hinder export competitiveness, exacerbating the foreign exchange gap.

To address the foreign exchange gap and promote economic development, developing countries employ various strategies. These include:

1. Export Promotion: Encouraging the growth of export-oriented industries and diversifying the export base to increase foreign exchange earnings.

2. Import Substitution: Promoting domestic industries to produce goods and services that were previously imported, thereby reducing the demand for foreign exchange.
3. Foreign Direct Investment (FDI): Attracting FDI to finance investment gaps and contribute to foreign exchange reserves.
4. Aid and Assistance: Seeking financial aid, grants, and concessional loans from international organizations and developed countries to bridge the foreign exchange gap.
5. Macroeconomic Policies: Implementing sound monetary and fiscal policies to maintain exchange rate stability, control inflation, and manage balance of payments effectively.

developing countries face a foreign exchange gap due to insufficient domestic savings and the need for substantial investments. Bridging this gap requires a combination of domestic and international measures, along with structural reforms and policies that promote export-led growth and reduce dependency on external borrowing.

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Q.3 What steps should be considered while formulating a tax concession policy for the promotion of investment in the industrial sector. Highlight in detail.(20)

Formulating a tax concession policy to promote investment in the industrial sector requires careful consideration of various factors. Here are the steps that should be taken into account while developing such a policy:

Assess the Current Situation: Begin by assessing the existing investment climate in the industrial sector. Evaluate factors such as the level of foreign direct investment (FDI), domestic investment trends, industrial growth rates, employment levels, and any challenges or constraints that hinder investment. This analysis will help identify the specific areas where tax concessions can be most effective.

Define Objectives: Clearly define the objectives of the tax concession policy. For example, the objectives could include attracting new investments, encouraging reinvestment by existing industries, promoting technology transfer, stimulating job creation, or fostering regional development. Having well-defined objectives will guide the design of the policy and enable effective evaluation of its outcomes.

Identify Target Industries and Activities: Determine the target industries and activities that will be eligible for tax concessions. This could be based on the potential for growth, export orientation, import substitution, or alignment with

national development priorities. Consider the industrial sectors that require support and those that have the potential to generate significant economic benefits.

Determine the Scope and Duration of Concessions: Decide on the specific tax incentives that will be offered. These could include reduced corporate income tax rates, accelerated depreciation allowances, tax holidays, investment allowances, or exemptions from specific taxes or duties. Consider the duration of the concessions, such as offering them for a fixed period or until certain investment thresholds are met.

Design Eligibility Criteria: Develop clear and transparent eligibility criteria for businesses to qualify for tax concessions. This may include minimum investment thresholds, job creation targets, technology transfer requirements, compliance with environmental or social standards, or engagement in specific priority sectors. The criteria should strike a balance between attracting genuine investors and preventing misuse or abuse of the concessions.

Determine Gradation of Incentives: Consider differentiating the level of tax concessions based on factors such as the size of the investment, geographic location, technology adoption, or export orientation. Graduated incentives can help direct investments to specific areas or sectors that require additional support or offer higher economic value.

Evaluate Revenue Implications: Assess the potential revenue impact of the tax concession policy. Analyze the revenue forgone due to tax incentives and evaluate the trade-off between short-term revenue loss and long-term economic benefits.

Consider implementing safeguards to ensure that the policy does not unduly strain public finances.

Monitor and Evaluate: Establish a robust monitoring and evaluation framework to assess the effectiveness of the tax concession policy. Set up mechanisms to track investment inflows, job creation, technology transfer, and overall industrial growth. Regularly review the policy's outcomes and make adjustments as needed to maximize its impact.

Communication and Promotion: Develop a communication strategy to effectively promote the tax concession policy to potential investors, both domestically and internationally. Highlight the benefits, eligibility criteria, and application procedures clearly to create awareness and generate interest among targeted industries. Engage with industry associations, trade promotion agencies, and other stakeholders to ensure effective dissemination of information.

Coordinate with Other Policies: Ensure coordination with other related policies and initiatives, such as trade policies, investment facilitation measures, infrastructure development plans, and skill development programs. A holistic approach that aligns tax concessions with other supportive policies will enhance the overall investment climate and increase the policy's effectiveness.

It's important to note that while tax concessions can be an effective tool for promoting investment, they should be carefully designed, monitored, and periodically evaluated to ensure their long-term effectiveness and avoid any unintended consequences or revenue leakage.

Q.4 Discuss the family planning programme can be effective in the face of traditional beliefs and social institutions that have sustained fertility at a high level. (20)

Implementing a family planning program can indeed be effective in the face of traditional beliefs and social institutions that have sustained high fertility levels. However, it requires a comprehensive and culturally sensitive approach to address the complex factors influencing fertility preferences and behaviors. Here are some key points to consider:

Education and Awareness: A crucial aspect of a successful family planning program is the dissemination of accurate information about contraception, reproductive health, and the benefits of smaller family sizes. This education and awareness campaign should address traditional beliefs and cultural norms, dispelling misconceptions and highlighting the advantages of family planning for individuals, families, and communities.

Involvement of Community Leaders: Engaging with community leaders, religious figures, and influential members of society is essential. Their support and endorsement of family planning can help counter traditional beliefs and social norms that may promote high fertility. By involving these individuals in advocacy efforts and providing them with accurate information, it is possible to influence public opinion and gain acceptance for family planning practices.

Tailored Approaches: Family planning programs should consider the specific cultural and social context of the target population. Customizing the strategies and messages to align with local traditions and values can help overcome resistance to change. This may involve using culturally sensitive language, incorporating religious teachings, and involving local customs in the design and delivery of family planning services.

Women's Empowerment: Empowering women is a crucial component of effective family planning programs. Promoting gender equality, providing education and economic opportunities for women, and ensuring their access to reproductive healthcare services can enhance their decision-making power regarding family size. When women have the means and autonomy to make informed choices, they are more likely to embrace family planning methods.

Healthcare Infrastructure: To make family planning accessible and convenient, an effective healthcare infrastructure is necessary. This includes establishing clinics, training healthcare providers, and ensuring the availability of a range of contraceptive methods. By integrating family planning services into existing healthcare systems, it becomes easier to reach communities and provide quality care.

Addressing Societal Pressures: Traditional beliefs and social institutions often exert pressure on individuals and families to conform to high fertility norms. Addressing these pressures may involve engaging with community organizations, working with influential individuals, and conducting social mobilization campaigns to challenge harmful norms and encourage open dialogue about family planning.

It is important to recognize that change takes time and may face resistance, particularly in societies with deeply ingrained traditional beliefs. However, with persistent efforts, collaboration with local stakeholders, and a focus on education, empowerment, and cultural sensitivity, family planning programs can gradually shift societal attitudes and behaviors towards smaller family sizes, contributing to improved reproductive health and sustainable population growth.



Q.5 What are the economic and social consequences of rapid population growth?(20)

Rapid population growth can have both economic and social consequences, which can vary depending on the context and specific circumstances of a country or region. Here are some general economic and social consequences associated with rapid population growth:

Economic Consequences:

Strain on Resources: Rapid population growth can lead to increased demand for essential resources such as food, water, housing, and energy. If the supply of these resources does not keep pace with the growing population, it can result in scarcity, rising prices, and unequal distribution, affecting the overall standard of living.

Unemployment and Underemployment: Rapid population growth can outpace job creation, leading to high levels of unemployment and underemployment. The labor market may not be able to absorb the growing workforce, resulting in job scarcity, increased competition, and lower wages.

Pressure on Infrastructure: A rapidly growing population places immense pressure on infrastructure systems such as transportation, healthcare, education, and sanitation. Insufficient infrastructure can hinder economic development, productivity, and the overall quality of life.

Economic Inequality: Rapid population growth can exacerbate economic inequalities within a society. Limited resources, unequal access to education and employment opportunities, and uneven distribution of wealth can widen the gap between the rich and the poor, leading to social tensions and potential social unrest.

Social Consequences:

Pressure on Social Services: A rapidly growing population strains social services such as healthcare, education, and welfare systems. It becomes challenging to

provide adequate access to quality education, healthcare facilities, and social assistance programs to meet the needs of the growing population.

Urbanization and Housing Challenges: Rapid population growth often leads to rapid urbanization, with a significant influx of people into cities. This places pressure on housing infrastructure, resulting in overcrowding, slums, inadequate housing conditions, and increased homelessness.

Social Cohesion and Cultural Changes: Rapid population growth can bring about social changes and challenges to social cohesion. Increased diversity, cultural integration, and migration can lead to tensions and conflicts among different social and cultural groups, particularly if not managed effectively.

Strain on Public Health: Rapid population growth can strain public health systems, making it more challenging to provide adequate healthcare services, disease prevention, and control. Access to healthcare facilities and resources may become limited, leading to increased health risks and a higher burden of disease.

Environmental Impact: Rapid population growth can place immense pressure on the environment, leading to deforestation, pollution, habitat destruction, and resource depletion. This can result in ecological imbalances, loss of biodiversity, and negative impacts on ecosystems and natural resources.

It is worth noting that the consequences of rapid population growth are not necessarily negative in all cases. With proper planning, investment in human capital, infrastructure development, and effective governance, a growing population can also contribute to economic development, innovation, and social progress.