Edexcel Economics A-level

Unit 4: The Global Economy

Topic 6: Measures to Promote Growth and Development

6.1 Market orientated strategies

Notes

These are measures which make the economy more free, with minimum government intervention.

- **Trade liberalisation**

  Free trade is the act of trading between nations without protectionist barriers, such as tariffs, quotas or regulations. World GDP can be increased using free trade, since output increases when countries specialise. Therefore, living standards might increase and there could be more economic growth.

- **Promotion of FDI**

  FDI is the flow of capital from one country to another, in order to gain a lasting interest in an enterprise in the foreign country.

  FDI can help create employment, encourage the innovation of technology and help promote long term sustainable growth. It provides LEDCs with funds to invest and develop.

- **Removal of government subsidies**

  Government subsidies could distort price signals by distorting the free market mechanism. A free market economist would argue that this could lead to government failure. There could be an inefficient allocation of resources because the market mechanism is not able to act freely.

  For example, the government might end up subsidising an industry which is failing or has few prospects.

- **Floating exchange rate systems**

  The value of the exchange rate in a floating system is determined by the forces of supply and demand.

- **Microfinance schemes**

  Microfinance involves borrowing small amounts of money from lenders to finance enterprises. It increases the incomes of those who borrow, and can reduce their dependency on primary products. There could be a multiplier effect from the investment of the loan.

They are small loans for usually unbankable people. It allows them to break away from aid and gives borrowers financial independence. In Bangladesh, 95% of microfinance cohorts are women.

Microfinance loans detach the poor from high interest, exploitative loan sharks. They could help businesses to be set up, although the money could also be spent on immediate consumption, rather than investment. Since the money goes directly to SMEs, it can stimulate employment.

However, the data collected on microfinance loans might not be reliable if there is dishonesty regarding where the money was spent.

In Tamil Nadu, India, less than 2% of microenterprises were still operating after their establishment.

Microfinance loans have high repayment rates.

- **Privatisation**

This means that assets are transferred from the public sector to the private sector. In other words, the government sells a firm so that it is no longer in their control. The firm is left to the free market and private individuals.

Free market economists will argue that the private sector gives firms incentives to operate efficiently, which increases economic welfare. This is because firms operating on the free market have a profit incentive, which firms which are nationalised do not.

Since they are operating on the free market, firms also have to produces the goods and services consumers want. This increases allocative efficiency and might mean goods and services are of a higher quality.

By selling the asset, revenue is raised for the government. However, this is only a one-off payment.