SOCIAL SCIENCE *for* SCIENCE STUDENTS

Revised Edition

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CHAPTER EIGHT

ECONOMICS AND DEVELOPMENT

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8.0 ECONOMICS

Definitions Of Economics

Many definitions have been put forward by different economists to explain what economics is all about. These differences in definitions are explained by the different viewpoints from which the economists look at the subject. Examples are as follows: Adam Smith a discipline which inquires into the nature and causes of wealth of nations; J. S. Mill a science that treats phenomena from the standpoint of price; and A. C. Pigou a means of studying how total production could be increased so as to increase people's standard of living.

Alfred Marshall's definition covers welfare, production and wealth. According to him economics is the study of mankind in ordinary business of life. It probes into problem of sharing or allocating scarce resources among alternative uses. He went on to say that economics examines the part played by human beings and social actions connected with the attainment of material requisites of well-being. Bannock, Baxter and Rees define Economics as a science concerned with those aspects of social behaviour and those institutions which are involved in the use of scarce resources to produce and distribute goods and services in the satisfaction of human wants. Essang and Olayide define economics as a social science concerned with the manner in which human beings and societies attempt to satisfy their unlimited and often conflicting wants by means of resources which are not only limited but also have alternative

uses. Samuelson (1981) describes Economics as the study of how people and society end up choosing to employ scarce productive resources that could have alternative uses to produce various commodities and distribute them for consumption, now or in future among various persons and groups in society. Economics analyses the cost and benefits of improving patterns of resource use.

In view of the above definitions, some analyses are needed. Firstly, economics is a science and a science is a discipline, which tries to explain as precisely as possible the conditions under which things happen in one or other aspect of reality.

Secondly, Economics is a social science. By this we mean that it is one of those sciences which study social phenomena. A social phenomenon is a product of the interaction of men. For instance a soliloque is not, but a conversation is a social phenomenon. Thirdly, Economics is concerned with scarce goods or resources. Anything that is useful and offers the user some satisfaction or utility is a good. Goods include physical things as well as services that are useful. To say that something is scarce means that it is limited in supply. In which case someone or group is ready to sacrifice some effort to acquire it. Fourthly, Economics tries to establish causes of material welfare. For economists, the level of material welfare is measured by the quantity and quality of economic goods and services at the disposal of the set of people concerned.

Micro And Macro Economics

Microeconomics is concerned with specific economic units and a detailed consideration of the behaviour of these individual units e.g. a consumer, a producer, small group of producers, consumers, distributors etc. In microeconomics we talk in terms of an individual industry, firm or household and concentrate on such magnitudes as the output or price of a specific product, number of workers employed by a single firm, the revenue or income of a particular firm or family etc. Individual units of an economy are treated as though they can be isolated from the rest of the economy. Thus while looking at the production activity of a firm in microeconomics one scarcely bothers to connect this with the capital and money markets which also constitute an integral component of the economy.

On the other hand macroeconomics deals with aggregates total income, total money supply, total population, employment, general price level, wage rate etc. In dealing with aggregates, macroeconomics is concerned with obtaining an overview or general outline of the structure of the economy and the relationship among the major aggregates which constitute the economy.

8.1 METHODOLOGY OF ECONOMICS

What procedures are employed by economists to achieve their goals? Economists do derive economic principles and use them in policy formulation, designed to solve economic problems. Certain procedures are employed towards the attainment of the above. First of all, facts relevant to the consideration of a specific economic problem are ascertained and patterned. The facts thus collected are put in order and summarised to bring out a principle such derivation of principle from facts is *'economic theory'* or economic analysis. Finally the general knowledge of economic behaviour provided by economic principles can be used in policy formulation, i.e. solutions for correcting or avoiding the problem under scrutiny. This final aspect is referred to as applied economics or policy economics.

The economist is concerned with finding solutions to the economic problems arising from the production, distribution and consumption of goods and services in such fields as the exploitation of natural resources, human resources, (i.e manpower) and manufactured products. To this end he

compiles, processes and interprets "*economic and statistical data*". The basic tool which the economist employs in carrying out his arduous tasks is called "*economic theory*". This provides a framework of systematic and logical thinking on economic questions. It is predicated on the *deductive method* of reasoning. It is a knowledge of the techniques of economic analysis and so it provides the economist with the basic tool of his trade. Theory is indispensable in organising, analysing an existing phenomenon as well as predicting the likely course of future events. In facts, without the aid of a logical theory, it will be virtually impossible to make any sense out of the mass of isolated facts.

The nature and scope of economic theory have been clearly stated by late Lord J. M. Keynes. He describes the theory of economics as a method rather than doctrine, an apparatus of mind, a technique of thinking, which helps a person to draw correct conclusions. Economic theory is based on certain realistic assumptions, which are somehow tempered by the need for simplicity. The test of a theory lies in its logical consistency, i.e whether the conclusions follow logically from the assumptions given. The usefulness of any theory to a particular situation, in turn depends on how realistic the given assumptions are.

But because of the limitations to the usefulness of abstract reasoning, which characterises the deductive method, the economist constantly has recourse to utilise a second method of analysis, known as the *inductive* or *empirical method*. Here the appeal is to facts, rather than reasoning, and an attempt is made to arrive at conclusions from the known facts of actual life. It is combination with the deductive method, however, that this type of analysis is most useful. By it, the economist can check a theory arrived at through logical deduction against the experience of reality, and so expose unrealistic hypothesis or

faulty reasoning.
Other tools employed by the economist in the performance of his functions include:

(a) **Use of Economic Terms:** Special vocabulary of the subject i.e its technical language e.g rent, land, money, profit, investment, marginal utility, marginal efficiency of capital, propensity to consume, multiplier, ceteris paribus, etc.

(b) **Economic Data:** These comprises schedules, graphs, figures and diagrams derived from various sources which assist the economist in explaining real economic situations.

(c) **Economic Statistics:** This is indispensable in research work in particular. It is useful both in making predictions about future trends as well as in arriving at meaningful and practical conclusions on certain vital economic problems of a given society.

(d) **Mathematical Symbols:** The special role of mathematics in developing economic theory lies in the clarity and conciseness of its language, e.g $Qx = f(p)$ means that the quantity (Q) demanded of a community X is a function of its price (P), and it gives the exact nature of the proposition being made. Thus mathematics simply provides a clear and useful shorthand impression for an economic proposition.

(e) **Economic Analysis:** This means defining and explaining, weighing up and examining carefully an economic problem which arises from the insufficiency of global wealth relative to the wants of mankind. This important tool is constantly employed by the economist in solving day to day economic problems of his community. Contemporary economic analysis is usually classified into either micro economics or macroeconomics which we have already defined.

Assumption (Other Things Equal)
The economist cannot make other things equal in his analysis. Hence he assumes other things being equal. e.g in analysing the relationship between price and amount, it is assumed that of all the factors influencing amount purchased, only the price varies; the rest are unchanged or equal.

The Main Aims Of Economic Analysis

1. To show how scare productive resources are allocated to different sectors of the national economy.

2. To indicate the ways and means of determining rewards to all factors of production e.g wages to labour, interest to capital, rent to land and profit to entrepreneurship.

3. To examine the ways and means of satisfying the needs of individuals and institutions in the economy i.e it indicates how wants are satisfied.

4. To examine how end products are distributed to the investment and consumption areas of the economy.

8.2 THE THEORY OF CHOICE AND THE PRINCIPLE OF OPPORTUNITY COST

The theory of choice rests upon the theory of scarcity, which is the most fundamental and universal in economics. The immediate consequence of this law of scarcity, which simply means that all economic goods and services are

scarce relative to the demand for them, is that man must device the means by which scarce resources can be effectively utilized to provide him with maximum satisfaction. This law is thus the motivating principle from which all economic activities arise. Without scarcity i.e. insufficiency of means in relation to human wants, there would be no allocation problem, no need for a price mechanism and no need for the economic institutions that have arisen in connection with the price mechanism. Indeed, there would be no need for the study of economics; for economic

The law scarcity has thus given rise to the emergence of the theory of choice. It follows therefore, that if people have many unsatisfied wants and the means of satisfying only some of them, they are faced with the problem of having to make a choice. Every person on earth makes his or her own choice from time to time; and this implies that he or she must forego some of the things desired in order to enjoy those considered to be more urgent, pressing and important. The ethical aspect of an individual's choice is no concern of economics. And the choices which an individual makes depend upon both his physical needs and socio-cultural influences. In all circumstances, however, the wants of individuals and the choices they make are measured by their willingness and ability to pay.

The problem of choice equally enters into such questions as deciding how to spend one's time. This is so because time is a scarce commodity in the sense that everyone's time is naturally limited to twenty-four hours a day. Hence, the individual must decide on how to spend his twenty four hours a day on work, leisure and other pursuits and rest in a way that will best satisfy his needs. A choice really means that an individual has one thing or the other and not both at the same time. Opportunity cost actually refers to the cost of what is forgone. It is the cost of what is given up in order to obtain something else. The concept of opportunity cost thus lays emphasis on the problem of choice, which is necessitated by the law of scarcity, by measuring the cost of obtaining an item in terms of other items which must have to be sacrifice in the act. Briefly stated, "*Opportunity Cost*" is the economists way of expressing foregone alternatives or benefits as the price of currently enjoyed benefits. It applies to both production and consumption, to individuals, firm and

societies at large. If for instance a student decides to visit a sick sister at Lagos at the same time an economics test is taking place, the opportunity cost or real cost to him is not the amount of transport fare he pays to get himself to Lagos, but the economics test he misses at that time. If a farmer, who can utilise a given amount of resources to produce cassava, cocoyam, maize or cocoa decides to produce yam, then the opportunity cost is not the expenses incurred to acquire the resources, but the cassava, cocoyam, maize and cocoa which he cannot produce with the same resource at that time. If the Nigerian government decides to use N100 million on defence equipment, the opportunity cost of this will be the other facilities which the people will be denied of at the same time i.e those items on which the amount would otherwise have been spent.

8.3 DEVELOPMENT

Meaning And Scope Of Development

There are several definitions of "development" given according to the wits of individual economist defining it. What is actually meant in characterizing a country as developed, is that there is in that country a constellation of numerous desirable conditions for work and life.

The word development has its root from the French word "*VOLOPER*" which means to wrap. To develop, therefore, means to "de-wrap" or to unfold gradually, to cause to grow gradually fuller, larger, stronger and better (Udoidem, 1992). This is in line with the view of Rodney (1986) who maintains that a society develops economically as its citizens increase jointly their capacity for dealing with the environment. This capacity depends on the extent to which they understand the laws of nature, the extent to which they put that understanding into practice by devising tools (technology) and the manner in which work is organised.

Awe (1986) also maintains that development must mean improvement in living conditions for which industrialisation, innovation and economic growth are essential. In this case there must not be gross disparities within a country, and the citizens of such a country must have their basic needs. These basic needs, according to Burkey (1993), include clean (Unpolluted) air and water, adequate and balanced food, physical and emotional security, physical and mental rest, culturally and climatically appropriate clothing and shelter. Others include sexual regeneration, a system of communication (Language), a belief and educational system for cultural continuity, physical and cultural continuity, physical and cultural security, a political system defining leadership and decision-making, and systems of health and recreation for maintaining well-being among sufficient numbers to maintain a community.

Todaro (1992) defines development as the process of improving the quality of all lives. It is made up of three equally important aspects viz:

(a) Raising people's living levels i.e their incomes and consumption levels of food, medical services, education etc.

(b) Creating conditions conducive to the growth of people's self-esteem through the establishment of social, political and economic systems and institutions which promote human dignity and respect; and

(c) Increasing people's freedom to choose by enlarging the range of their choice of consumer goods and services.

Others with such views of development include Thirwall (1983), Schumpeter in Jhingan (1992), and Kindleberger in Jhingan (1992). Economic development is seen by Diejomaoh (1988) mainly from the view point of increasing the rate of saving and capital formation. This, if achieved, would tend to reduce unemployment, absolute poverty and inequality in income distribution. This same notion, perhaps, informs Meier's (1984)

definition of development in terms of increase in real per capita income over time, provided the number below an absolute poverty line does not increase and the distribution of income does not become unequal.
Development is not purely an economic phenomenon. In an ultimate sense it must include more than the material and financial side of people's live's. Development is, therefore, perceived as a multi-dimensional process, involving the reorganisation and reorientation of the entire economic and social system.

In addition to improvement in incomes and output, development typically involves radical changes in institutional, social and administrative structure as well as in popular attitudes and in many cases even customs and beliefs. From the ongoing definition of development it is clear that development is more embracing than economic development. Economic development is generally defined to include improvement in material welfare, especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease, and early death. It also includes changes in the composition of inputs and outputs that generally includes shifts in the underlying structure of production away from agriculture towards industrial activities. Also included is the organization of economy in such a way that productive employment is general among the working age population rather than the situation of a privileged minority. There is, therefore, corresponding greater participation of broadly based groups in making decisions about the directions (economic or otherwise) in which people should move to improve their welfare. Although development is usually defined in a national context, its widespread realization may necessitate fundamental modifications of the international economic and social systems as well.

8.4 INDICES OF DEVELOPMENT

No single definition or characterization of development adequately captures its multifaceted nature. It follows that no single measurement of development completely describes such an intricate and subtle process. The multiplicity of development goals is seen by the available variety of indices of development.

(a) When we are interested in material output we measure aggregate output in the form of Gross National product (GNP) or Gross Domestic Product (GDP) or National Income (N.I)

(b) Levels of mass poverty are indicated by the income distribution in the country.

(c) Employment and unemployment rates are periodically measured in most countries by census and sample surveys.

(d) Other measurements such as fertility, literacy, mortality rates etc. are used to approximate the extent of development in other areas of concern.

- According to the United Nations, economic development has taken place if, over a period of a decade or two an economy experiences an increase of 5-7% in her G.N.P as the case may be. The said rate of growth must be generated and sustained over a long time.
- Sustained increase in the rates of growth of real per capita income also indicates development. The rate of growth of real per capita income is preferred to GNP or GDP because the former takes care of the rate of growth of population, which the latter ignores.

$$\text{Per capita income} = \frac{\text{GNP}}{\text{Population}}$$

- Another index of development involves planned changes in the structure of production and employment. In

developing countries, the agricultural sector employs more than 60% of the labour force. As development proceeds, labour drifts from the rural agricultural sector to the urban manufacturing sector. Care should, however, be taken to ensure that productivity is increased and maintained in the agricultural sector to forestall scarcity of food. A typical economy is made up of three dominant sectors agricultural sector, manufacturing sector and the service sector. If the shares of labour changes in favour of the manufacturing sector, the there can be said to be an increase in development.

- **Poverty, inequality and unemployment:** if the above factors go down in a sustained manner, we can say that economic development has taken place.
- **Life Sustenance:** Life sustenance covers the physical requirements that are needed for man to sustain self-shelter, money etc. This component takes care of the economic variables of development. It also encompasses the elimination of poverty, inequality and unemployment.
- **Self Esteem:** Man's demand for self respect is of common place. Self respect needs material acquisition and economic benefits attained by the elimination of poverty, inequality and unemployment.
- **Freedom:** Freedom must be attained before development is said to take place. Man must be free from the natural environment, external oppression, dogmas, tradition and customs.

The three components above constitute institutional, social, cultural and political changes which must take place in favour of development.

- **The physical Quality of life index (PQLI):** The three elements which constitute the physical quality of life index are Life Expectancy, Infant Mortality and literacy.

Which index to use depends on the specific problem at hand. For instance, if we are interested in how much potential a country has to meet certain situation like wars, the growth in the total national income is a useful index. When we are interested in standard of living of the people, the indicator to use in the per capita income. When interested in the levels of physical well-being of individuals we use the physical quality of life index. In the light of the discussions thus far, questions about the meaning of development must be formulated thus;

(1) Has the general level of living expanded within a nation to the extent that absolute poverty (i.e. deprivation of life sustaining goods, the degree of inequality in income distribution the level of employment, and the nature and quality of educational, health and other social and cultural services) improved?

(2) Has economic progress enhanced individual and group esteem both internally vis-à-vis one another and externally vis-à-vis other nations and regions?; and

(3) Has economic progress expanded the range of human choice and freed people from external dependence and internal servitude to other men and institutions or has it merely substituted one form of dependence (e.g. economic) for another (e.g. cultural)? The indices of development as captured by Akpakpan (1987) include:

(I) A reduction in the level of unemployment;
(ii) A reduction in the extent of personal and regional inequality;
(iii) A reduction in the level of absolute poverty;
(iv) A rise in real output of goods and services and the improvement of the techniques of production;
(v) Improvement in literacy, health services, housing condition and government services;
(vi) Improvement of the level of social and political consciousness of the people, and

(vii) Greater ability to draw on local (human and material) resources to meet local needs.

From the foregoing discussions on development, it would be easy to define underdevelopment. A country is christened as *"underdeveloped"* when there are in that country a constellation of numerous undesirable conditions for work and life. In which case, output, incomes and levels of living are low, many modes of production, attitudes and behaviour patterns are disadvantageous and there are unfavourable institutions ranging from those at the state level to those governing social and economic relations in the family and in the neighbourhood.

Underdevelopment may be seen in the non-increase of per capita income which then is a key pointer of the poverty of the people. However, this indicator, by itself, is not a sufficient proof of a country's underdevelopment. An underdeveloped country is one which has a potential prospect for using more capital or more labour or more available natural resources or all of these to support its population on a higher level of living. If such potentialities exist, non-rise in the per capita income then symbolizes the existence of unutilized resources. One can, therefore, say that an underdeveloped country is one whose resources have not been developed in the past as indicated by the lack or absence of rise in per capita income.

8.5 ATTRIBUTES OF LESS DEVELOPED COUNTRIES

We must note that there is no typical underdeveloped country. We rather have less developed and developing countries. This is due to the fact that human societies are not stagnant. They are rather dynamic and do undergo institutional and other changes with time. Generally, however, the following have been observed as being the attributes of less developed countries.

(i) Less developed countries are more agrarian than industrial. Therefore a greater portion of the national income is derived from agriculture.

(ii) There is the prevalence of unemployment, especially of labour. Self-employment and the informal economic sector therefore thrives.

(iii) The people are separated by racial, ethnic and religious differences, which further inhibit development.

(iv) Concentration in ownership marks the distribution of income and wealth. Few people are, therefore, rich while the masses remain poor.

(v) Institutional channels to link potential savers with productive investment (Financial intermediaries) are limited.

(vi) Widespread poverty is the lot of most people.

(vii) Less developed countries depend mostly on few primary exports rather than diversified range of products.

(viii) A large part of government revenue is generated from export of primary products which prices fluctuate from time to time.

(ix) Industries are very rudimentary, in which case most manufactured goods are imported. Since the demand for the imports grow more rapidly than income, balance of payment problems accompany development.

(x) There is rapid population growth, which in the face of agricultural stagnation brings additional pressures on balance of payments; and

(xi) Limited freedom from external dependence and dominance.

8.6 OBSTACLES TO DEVELOPMENT

Each of the characteristics of Less Development Countries (LDCs) can be considered as an obstacle to development. Conditions of the social system also constitute obstacles to development. These obstacles may be categorized as economic and non-economic.

(a) Economic Obstacles

(i) **Lack of Industrial Raw Materials:** In most developing countries, there is the absence of industrial raw materials which would help in development.

(ii) **The Vicious Circle of Poverty:** This implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country poor. The total productivity in underdeveloped countries are low due to deficiency of capital, market imperfections, economic backwardness and underdevelopment. The low level of real income which is a reflection of low investment and capital deficiency is a common feature of vicious circle.

(iii) **Low rate of Capital Formation:** The most pertinent of all the obstacles to economic development is the shortage of capital which stems from the vicious circle of poverty. Poverty is both a cause and a consequence of a country's low rate of capital formation.

(b) Non-economic Obstacles To Development

(i) **Environmental Factors:** Most developed countries are concentrated in temperate zones while less developed countries are in sub-tropical and tropical zones. Climate plays a major role in the process of economic development. In the topical zones, human energy and achievements are limited due to heat, humidity and lack of challenge to human ingenuity. There is, however, very little empirical evidence to support this fact. However, heat, torrential rains and other geographical factors account for the poor nature of tropical soils. The tropics is also fertile breeding ground for variety of agriculture diseases and pests as well as human disease like malaria, yellow fever, hookworm etc.

(Ii) **Socio-Culture Factors:** In most developing countries, there are near stagnant traditional societies that are resistant to change. Societies which have never experienced significant economic growth may be characterized as traditional. They seek to preserve their institutions or ways of doing things and may, therefore, look at innovations suspiciously and as capable of causing catastrophe. Due to their traditional, social and religious beliefs, new ideas are viewed as threatening the existing social order.

(iii) **Psychological Factors:** Certain communities and nations remain poor because the citizens are emotional, unstable, paranoid or lazy. These tendencies hinder development.

(iv) **Lack of Entrepreneurship:** This involves inability or refusal to take risk and make pioneering efforts at production of goods and ideas.

(v) **Political Obstacles:** Under political obstacles to development are colonialism, neocolonialism, political instability, authoritarianism and sheer incompetence in governance.

(vi) **Repercussions of International Forces:** A country may remain less developed due to the repercussions of what happens in the rest of the world. For instance, happenings in the international oil market would influence the oil producing nations especially the third world countries. A case in point is the oil boom of the late seventies and its repercussions on the economies of developing nations.

8.6 BASIC REQUIREMENTS FOR ECONOMIC DEVELOPMENT

1. **An indigenous base:** The nationals within should be aware of the virtues in change. They should be ready to accept change and the indigenes must be relied upon as main sources of man-power.

2. Removing market imperfections in the goods, money, capital and foreign exchanges markets.
3. **Structural Change:** The economy must change from an agricultural to an industrial economy and from subsistence to a modern economy.
4. **Capital formation which includes:** increase in the volume of real savings, existence of credits and financial institutions to mobilize savings into investible funds, and use of savings for investment in capital goods.
5. **A suitable investment criterion:** In this case the rate of investment as well as composition of investment must be determined. Specifically investment should be made in those direction where the social marginal productivity is highest. So the guiding principles of the criteria are as follows: Firstly, investment should be directed towards the most productive uses; secondly investment should be made in those projects that make the maximum use of labour. Thirdly, investment should be selected that produce goods which meet the basic needs of the people and prohibit greater external economies. Fourthly, investment projects that will make use of domestic raw materials should be given preference over others. Moreover, those investment projects should be selected that will improve the distribution of real income. Furthermore, investments should be directed to those industries which conserve foreign exchange, reduce pressure on balance of payments and maximize the ratio of export goods to investment.
6. **Socio-cultural stability:** Economic development requires a social environment that is devoid of restiveness and upheavals. The cultural beliefs of the people must also not be inimical to modernization and innovation.

7. **A conducive administrative framework:** The administrative set up and practices must be free from undue bureaucratic bottlenecks and conservatism. These inhibit productivity and hinder progress.

7.2.6 The Role Of Government In Development

1. Changes in institutional framework, socio-cultural attitudes, values institutions.
2. Organizational changes: expansion and development of markets, organization and development of financial institutions and organization of labour.
3. Provision of social and economic overheads: these include: education, public health, good roads, water, electricity etc.
4. Agricultural development to tackle low agricultural productivity.
5. Industrial development.
6. Increase in foreign trade
7. Formulation of appropriate fiscal policies to take care of public expenditure programmes and supply of public goods.
8. Monetary policy formulation in order to enhance production and check inflation.
9. Tackling the problem of corruption.

8.7 ECONOMICS AND DEVELOPMENT

Development economics or economic development is a major area in the study of economics as a whole. They make use of economic theory in the explanation of the problems and prospects of development.

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