Endogenous Versus Exogenous Growth Theories

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**Introduction**

**Endogenous Growth**

Endogenous growth refers to internal growth or internal variables that affect economic growth. It is long-run growth concerning the economy at a rate determined by internal factors in the economic system. The endogenous theory describes the long-run growth that originates from financial actions that construct new technological know-how. Economists relating Endogenous growth believe that enhancements in output can be associated directly to rapid innovations plus investments in human resources (Fine, 2000). Economists think that the private and government sector must encourage innovations by providing incentives for businesses and individuals to be creative. For example, investments in biotechnology, software, andtelecommunications sectors are becoming massively essential in most of the advanced and emerging nations.

The main points of the endogenous growth theory are as follows:

* Government strategies can nurture a nation’s growth rate by allowing and motivating competition and helping people and businesses to innovate.
* There are growing returns on investment in education, infrastructure, health, and telecommunications.
* Investments in research & development by private segment is a vital source of technical development.
* The safety of property rights and copyrights is necessary for providing inducements for companies and entrepreneurs to participate in research and development
* Investment in the quality of the workforces is the fundamental constituent of development
* Government strategy should motivate entrepreneurship to generate new businesses, offer employment, financess, and innovation.

**Exogenous Growth Theory**

According to exogenous growth theory, economic prosperity or fiscal growth is mainly determined by factors outside of the given business or economy, in contrast to internal influences. Both the endogenous growth and exogenous growth theories are a fragment of the neo-classical growth models.

The external factors that result in exogenous growth are savings rates, production, technological variables or rate of technological advancement and diminishing returns of capital.

The notion of exogenous growth came out of the neoclassical growth model. This model is different from the endogenous model as the exogenous model entails factors outside of principal investments and a mounting functioning populace to nurture an economy (Zhang, 2018) persistently.

**Impact of government policy on the long-term growth rate of an economy**

There are definite factors that influence the long-term growth of an economy such as growth of productivity, demographic changes, and labor force participation. The increase in productivity is the proportion of outputs to inputs related to the economy. For example, labor, capital, services, energy, and materials. When the output grows the price of goods is dropped. Lesser costs result in the growth of demand for the service or product, leading to more enormous profits. Demographic changes are those that impact fiscal growth by altering the employment to population relation., for instance, the quality and quantity of accessible natural resources. Also, the age factor of the population impacts jobs and long-term growth. Likewise, labor force contribution to the economy influence fiscal growth. It is the number of workforces available and working.

Growth rate of an economy is mostly dependent on government policies. If the government policies are attractive for investors and enough incentives are provided to businesses and individuals, exonomy will florish. The supportive role of government specifically in the development of entrepreneurship helps greatly in the growth of the economy. Efforts and policies of the state in the form of tax incentives to encourage businesses and individuals to create and expand businesses are in particular helpful. Specific privileges in the form of taxes, investment tax credits, and targeted capital gains can be more appealing. Many Western countries are aware of the significance of providing incentives and rules that are encouraging for entrepreneurs as such policies assist immensely in the growth of an economy.

**References**

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