Economic Development

Measures of living standards:

Real GDP per head - output/population

Good for comparison between countries, with population size and inflation adjustments - if adjusted for currency value.

BUT it is an estimate, so not accurate
doesn't include informal economy
average, so does not reflect distribution of income
increase in some goods will not improve living standards e.g. demerit good
non-marketed output not included e.g. housework
quality of life could fall even though GDP is rising - impact of industrialisation, e.g. pollution, poor working hours/conditions etc.

Measured as: usually in US$ or own countries currency

Purchasing power parity: exchange rate based on the ratio of the price of a basket of products in different countries - the buying power of currencies in their own countries. Used when comparing real GDP per head between countries, to overcome the problem of changing exchange rates.

Human development index (HDI) - developed by United Nations

Good for taking into account life expectancy at birth, years in schooling as well as Gross National Income.

BUT doesn't include everything, in particular, gender gap and rural/urban gap within countries, political freedom and the environment.

Measured as: very high human development, high, medium, low/ ranked as a calculated number, compared to others.

GDP: total market value of output produced within a country over a set time.
GNI: income received by the country from its residents and businesses regardless of whether they are located in the country or abroad.

Genuine Progress Indicator (GPI) -

Good for GDP, adjusted for income distribution, minus things that reduce std of living (crime, pollution, traffic accidents etc.), plus things that increase std of living (care work, volunteer work, leisure time etc.).

Gender Inequality Index (GII) - measure of gender inequality in terms of reproductive health, empowerment and labour market participating.

Happy Life Expectancy Index (HLEI) - an index which multiplies life expectancy by a happiness index.

Gross National Happiness - includes a number of indicators including income, psychological wellbeing, education and ecological diversity.

Poverty

Absolute poverty: where people's income is too low to enable them to meet their basic needs.

Relative poverty: where people are poor in comparison to others in their country, so their income is too low to enable them to enjoy the average standard of living in their country.

Causes of poverty:
- Low-paid work
- unemployed
- poor health
- old age
- large number of dependants in a family
- poor education

Vicious circle of poverty: a situation where people become trapped in poverty.

Government policies to reduce poverty/redistribute income:

- increase/improve free education/training
- promote economic growth (supply-side policies)
- national minimum wage
- encourage multinational to set up in a country
- equitable state benefits
- land reform
- progressive direct taxation system
- free healthcare
- education policies that enable social mobility of the poorest in society
- foreign aid

Reducing poverty will raise living standards resulting in:
better education, better healthcare, more choice, better quality goods and services available, improved housing, improved working conditions, reduced pollution etc.

Population

Birth rate: number of births per year per 1,000 of population

Death rate: number of deaths per year per 1,000 of population

Emigration: the act of leaving a country to live in another one.

Immigration: the act of moving into a country after leaving another one.

Net migration: the difference between immigration and emigration

Child mortality rate: deaths per 1000 of under fives

Infant mortality rate: deaths per 1000 of under ones.

Population growth occurs when:

birth rate and immigration > death rate and emigration.

MEDC: More Economically Developed Country, e.g. UK, USA, France
LEDC: Less Economically Developed Country, e.g. Niger, Chad, Sudan
NIC: Newly Industrialised Country e.g. China, Mexico, India

Factors affecting birth rate

- average age of population
- number of women in the population
- female fertility rate
- gov't support of families - incentives and disincentives
- economic situation
- war/political unrest
- level of gov't help for the elderly
- level of agriculture/subsistence farming in a country
- attitudes to women working
- education of women
- access to contraception
- average age of marriage
- child and infant mortality levels

Factors affecting net migration rate

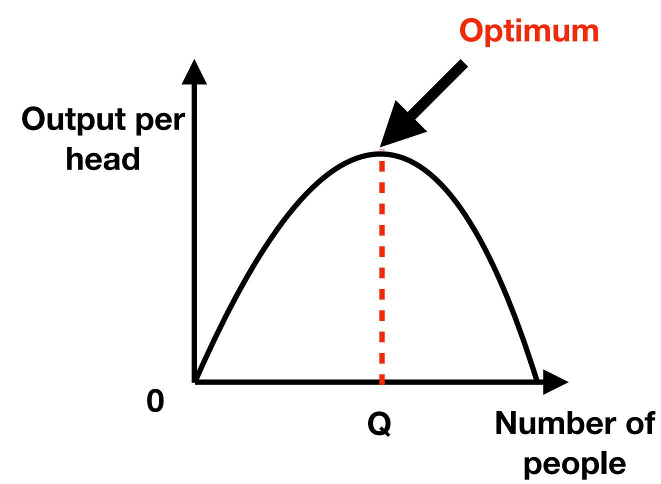
- relative living standards at home and abroad
- persecution of particular groups
- restrictions on migration or a country's incentives for migrants
- war/famine/poverty
- environmental and natural disasters

Factors affecting death rate

- nutrition
- housing conditions
- medical care
- lifestyles
- working conditions
- war
- natural disasters
- epidemics
- level of welfare state

Factors affecting population growth

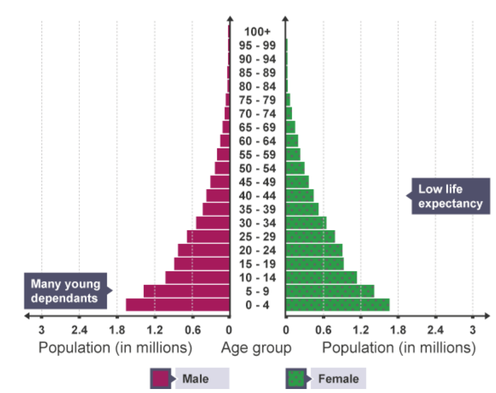
Demographic:	birth rate death rate fertility rate life expectancy child mortality rate
Other:	net migration rate social change disasters/epidemics government policy



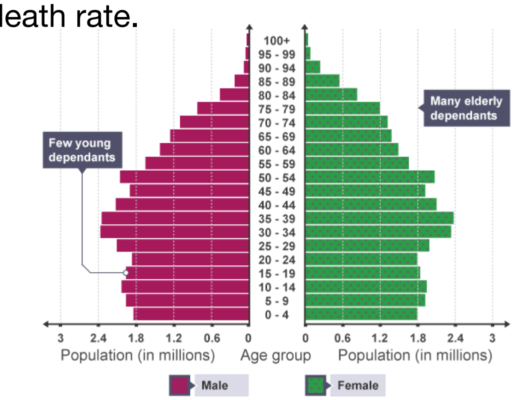
Optimum population: the size of population which maximises the country's output per head.

Population pyramid: graph showing the age and gender structure of a country's population.

LEDCs generally follow a concave triangle shape, **MEDC**s generally have a top heavy, bulbous shape with a shrinking base, and **NIC** have a convex triangle shape, with the 'bulge' of population moving up the chart due to a decreasing death rate.



Mozambique - https://www.bbc.co.uk/bitesize/guides/ztr2w6f/revision/2



UK - https://www.bbc.co.uk/bitesize/guides/ztr2w6f/revision/2

Dependency ratio:

$$\frac{\text{number of dependent age groups}}{\text{number in the labour force}} \times 100$$

Dependent age groups are those below leaving school age (<15) and those over retirement age (65 and over).

Effect of increase in population size:
- better use of resources (if under-populated)
- increase in size of markets
- increase in mobility of labour, entrepreneurship (if migrants)
- more investment and technology due to increased market size
- raise in size of labour force
- if labour force all employed, raise in tax revenue, if not, increase in pressure on government spending
- over-population: food shortages, over-crowding, inadequate/insufficient infrastructure
- restrictions on improvements in living standards
- environmental pressure
- pressure on employment opportunities
- balance of payments pressures - more imports needed to satisfy population

Ways to reduce birthrate:
- more work place opportunities for women
- more education for women
- increased access to contraception
- reduce immigration
- Lower child and infant mortality rates
- support for older people
- laws restricting family size

Consequences of net emigration:
- size of working population likely to be reduced
- remaining work force have a greater burden of dependency
- average age of labour force will increase
- gender distribution of the population may be affected
- shortage in skilled workers - brain drain
- under-utilisation of resources
- money sent home to support workers
- change in patterns of demand.

Consequences of an ageing population:
- rise in the dependency ratio
- change in the labour force
- higher demand for healthcare
- greater need for welfare services
- change in patterns of demand - lower demand for schools and children's goods and services (if shrinking birth rate), high rise for over 50s holidays, sheltered housing etc.
- rise in cost of state and private pensions

Economic development: an improvement in economic welfare.

Why some countries are more developed than others:

Real GDP per head.

Savings: high GDP per head = high savings.

Investment: high savings = high investment.

Education: high incomes/tax rev = more gov't & individual spending.

Healthcare provision: as above.

Industrial sector structure - primary, secondary, tertiary.

Population growth - high dependency ratio = stagnated development (std of living remains same or lower).

Exports - if dependent on just a couple of industries, it is vulnerable to changes in world demand,.

Differences in productivity - output per worker hour.

For economic development to occur there needs to be an improvement in quality or quantity of resources produced.

In order to bring about economic development about you need:
- more investment
- better/free education/training
- better/free healthcare
- supply-side policies - will increase growth and so std of living.

Problems for countries with relatively low economic development:
- high growth in population
- high levels of international debt (if not invested and earning income for the country)
- reliance on exports of primary products
- lack of investment in human capital and capital goods
- emigration of key workers
- trade restrictions on their products
- unbalanced economies

Factors that limit economic development:
- high population growth
- heavy level of international debt (if not invested, lost due to government corruption etc.)
- heavy reliance on primary exports
- lack of investment
- lack of natural resources
- other countries' economic positions and desire to trade
- political unrest and military conflict

International Trade and Globalisation

Specialisation at national level is dependent on:

quantity produced
quality of resources that are available to an economy

Impact of specialisation

When a country specialises, it creates a higher national output, so…

	Pluses	Minuses
Consumer:	Price - lower Quality - higher Quantity - more Choice - more Living standards - better Workers develop particular skills	Prices - can go up if supply is restricted Quality - stds aren't the same worldwide Quantity - supply problems if disaster/war Over-dependence on foreign G&Ss (e.g. oil) Workers lacking skills for other industries

On the international scale…

Firms:	Costs - lower/economies of scale Innovation - new tech and ideas	Dependent on foreign supplies Vulnerable to changes in demand
Economy:	Efficiency - higher (output/GDP) Economic welfare - higher Living standards - better Economic growth - up	Over-reliance on some markets/G&S

Globalisation: the process by which the world is becoming increasingly interconnected through trade and other links.

Evidence of globalisation:

international brands, coca-cola, etc
international music/film/media etc.
swapping of innovation, technology and business ideas

Pros:
- promoted economic growth
- improved stds of living
- improved human rights and gender equality

Cons:
- can lose individuality between countries
- smaller and less powerful countries can be exploited
- Big business can become unaccountable to any one country

Multinational Company/Corporation (MNC): is one that has business interests in more than one country, e.g. headquarters, factories, offices etc. so owns or controls production of goods or services in at least one country other than its home country.

MNC trade implications…

	Pluses of being…	Minuses of being…
MNC:	Larger market lower transport costs close contact to their market fewer tariffs and trade restrictions access to cheap labour access to raw materials possible set-up grants from host C. If big, can hold gov'ts to 'ransom'	Harder to manage Need to know other counties' regs/law Work hard to maintain quality control May need to train up staff My need to spend on infrastructure Have to understand new markets Communication issues
Host Country:	Employment - up GDP - up Transfer of knowledge/tech Import bill - lower taxes - up help develop infrastructure Prices - down	MNC have bad press local businesses - down can pull out at any moment Profits go to home country Possible pollution Can 'ransom' gov'ts
Home Country:	Business growth Profits back	Employment - not going up Exports - not going up

Free Trade: no restrictions, tariff, quotas etc. on trade between two or more countries

It allows:

- more efficient allocation of resources - allowing countries to specialise
- Output (GDP) - up
- Employment - up
- Living standards - up
- Quantity of goods and services on offer - up
- Quality of goods and services on offer - up
- Price of goods and services on offer - down.

Trade Protection

Methods of protection:

- **Tariffs** - taxes on imported goods
- **Quotas** - limits on quantities of imported goods
- **Embargoes** - bans on imports
- **Exchange controls** - restricting foreign currency, limiting amount of foreign travel, investment and buying of foreign products
- **Regulation** - quality standards, paper work, voluntary export restraints (a country agrees to limit amount of exports of a particular product, for fear of retaliation or if another country agrees to do the same on another product)
- **Subsidies** - keeps costs and therefore price of a product down in both domestic and export markets.

Protection of…

	Pros:	Cons:
Infant industries: (Sunrise)	Economies of scale Allows growth Internationally competitive	May be a weaker co. in long run Hard to identify potential industries
Declining industries: (Sunset)	Retains employment	Hard to remove protection (e.g. steel) Inefficient use of resources
Strategic industries:	Allows development Ensures security of supply	Inefficient use of resources
Dumping:	Prevents 'unnatural' undercutting Protects production Protects employment	
Unfair subsidies:	Prevents 'unnatural' undercutting Protects production Protects employment	

All can lead to lower choice, higher prices, inefficiency, and retaliation.

Foreign Exchange Rate: price of one currency in terms of another currency or currencies.

Fixed: where a value is set at a particular level in terms of another currency/ies.
e.g. Danish Krone is pegged to the Euro
746.038DKK per €100 (fluctuation rate of 2.25%)

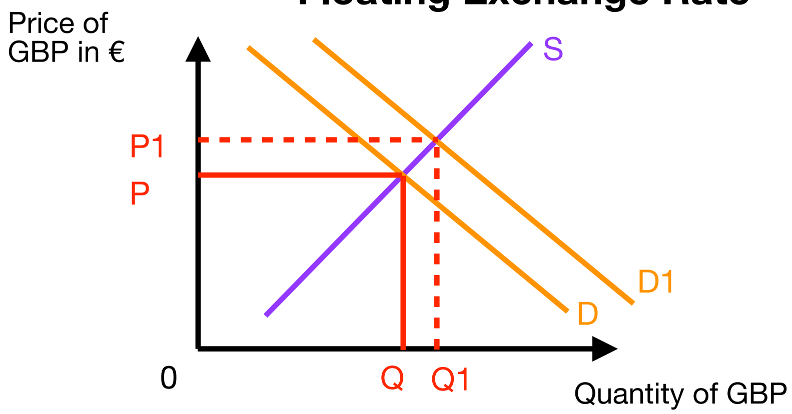
When values change it is called a **devaluation** or a **revaluation**.

Price is maintained through a central bank buying or selling more currency to balance out market forces.

Floating: Price is determined by market forces (S&D). Fluctuates regularly.
e.g. Great British Pound Sterling (GBP) against the Euro
£1 per €1.13

When values change it is called a **depreciation** or an **appreciation**.

Floating Exchange Rate

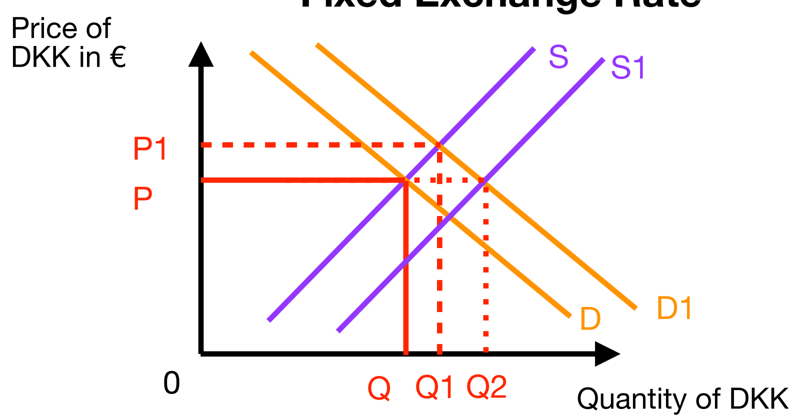


Shift in Demand:

As demand increases, so does price.

(One currency always expressed in terms of another.)

Fixed Exchange Rate



Shift in Supply:

Government intervention - central bank sells more Danish Krone devaluing the DKK to its original price another.)

Exchange rate system…

	Pluses	Minuses
Floating:	- Self-correcting balance of payments - Less chance of financial crisis - Protects from other currency crises - Fewer foreign exchange reserves	- Not guaranteed - May discourage foreign direct investment - Hot money - Day-to-day trade uncertainty - Large depreciation can lead to inflation (making imports more expensive)
Firms:	- Financial certainty - Easier to do international trade - Inflation can be better managed	- Lot of foreign reserves needed - Implementing policies that conflicts with other policies e.g. interest rates - Changes in price can lead to loss of confidence in economy - Crisis can lead to devaluation

Causes of changes in exchange rates…

Demand for Home Currency (buying a currency)**:**

Exports

Foreign Direct Investment (Investing abroad)

- sending foreign earned money 'home'
- foreign firms investing in home stock market, banks etc.

Individuals - holding money abroad and sending it or interest home, travelling money for home country etc.

Working migrants sending money 'home'

Foreign governments holding 'home' currency reserves

Speculators - think value of currency will go up

Supply for Home Currency (selling a currency)**:**

Imports

Foreign Direct Investment (Investing abroad)

- sending domestic earned money 'home'
- domestic firms investing in foreign stock market, banks etc.

Individuals - holding money in home country, but sending it or interest to a foreign country, travelling money for other countries etc.

Working migrants sending money 'home'

Home governments holding 'foreign' currency reserves

Speculators - think value of currency will go down

Consequences of changes in exchange rates…

- **Macroeconomic considerations:**
  - fall in exchange rate means fewer £s to $, increases import cost = cost-push inflation.
  - fall in exchange rate, increases demand of exports = high output and employment OR demand-pull inflation
  - raise in exchange rate, so more £s to $), means lowers import cost = choice and lower prices OR domestic businesses pushed out of market = low output and high unemployment
    - **Export and Import Prices:** total value also dependent on PED

Balance of payment: record of all economic transactions between the residents of a country and the rest of the world in a particular period.

Made up of…

Current account balance: a record of the income received and expenditure made by a country in its dealings with other countries

trade in goods - value of exported and imported goods

trade in services - value of exported and imported services, e.g. banking, construction, financial, travel, transportation

Primary income: income earned by individuals and firms

compensation of employees, e.g. wages, salaries etc. earned abroad minus that earned by foreigners in the home economy.

investment income, e.g. profit, dividends and interest from abroad minus the same going to foreign countries. (Foreign Direct Investments and financial investments, e.g. shares, gov't bonds.)

Secondary income: transfer of money, goods and services not in return for anything else - gifts - for gov'ts (aid), individuals (money home) or firms (charitable donations)

Factors that change exports/imports:

A country's inflation rate - when money is worth less, we can buy more M, but sell fewer X

A country's exchange rate - when money is worth less compared to other countries, we can buy less M, but sell more X

Productivity (cost per unit produced)

Quality

Marketing

Domestic GDP (wealth)

Foreign GDP

Trade restrictions

Causes of current account deficit:
more imports than exports

- Over-valued exchange rate
- High domestic income
- Better quality imports
- Uncompetitive industries

Floating exchange rate, so will lead to…

- Lower exchange rate
- increased unemployment
- Supply-side policies to restore competitiveness
- More borrowing

Causes of current account surplus:
more exports than imports

- Under-valued exchange rate
- Strong export demand
- Low quality imports
- rise in domestic productivity

Floating exchange rate, so will lead to…

- Higher exchange rate
- Increased employment
- Inflationary Pressures
- Increased living standards
- Less borrowing