

Economic Growth and Development

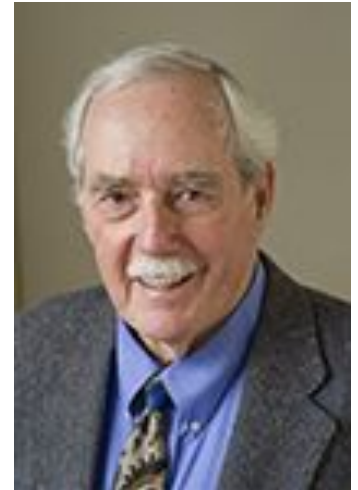
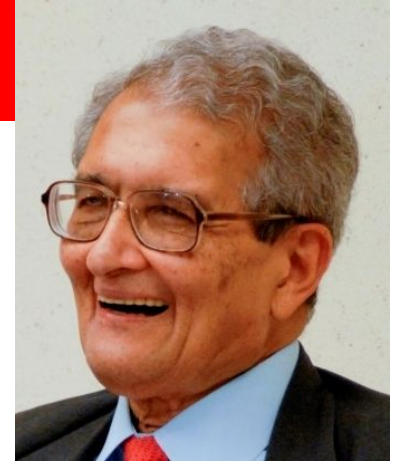
Economic growth does not always equal development

What is economic development?

The process of improving people's well-being and quality of life, involving improvements in the standard of living, reduction in poverty, improved health and education along with increased freedom and economic choice. - **Amartya Sen**

1. Availability and distribution of live sustaining goods - food, shelter and health
2. An increase in the standards of living (both material and non-material)
3. Expansion of economic and social choices

Michael Paul Todaro



Standard of living

vs

Quality of life

- [income](#)
 - quality and availability of employment
 - class disparity
 - poverty rate
 - hours of work required to purchase necessities
 - [gross domestic product](#) (GDP)
 - number of paid vacation days per year
 - affordable access to quality health care
 - quality and availability of education
 - [life expectancy](#)
 - incidence of disease
 - cost of goods and services
 - [infrastructure](#)
 - national economic growth
- freedom from slavery and torture
 - equal protection of the law
 - freedom from discrimination
 - freedom of movement
 - freedom of residence within one's home country
 - presumption of innocence unless proved guilty
 - right to be treated equally without regard to gender, race, language, religion, political beliefs, nationality, socioeconomic status and more
 - right to privacy
 - right to education
 - freedom of thought
 - freedom of religion
 - equal pay for equal work

What are LDC's?

The least developed countries (LDCs) are a group of countries that have been classified by the UN as "least developed" in terms of their low gross national income (GNI), their weak human assets and their high degree of economic vulnerability.

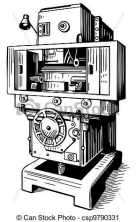
GNP and **Gross National Income**(GNI) accounts for income received from a country's factors of production, regardless of where in the world these factors are located. So profit earned by a New Zealand-owned factory in the US is included in NZ's GNP/GNI.

GNP/GNI accounts for income earned based on national ownership of factors of production. To calculate GNP/GNI, the income earned by foreign-owned firms is subtracted from GDP. Similarly, income earned in foreign countries by domestically owned factor of production is added to GDP.

Thus, **GNP/GNI = GDP + net property income from abroad**

Causes of long-term economic growth (unit 2.7)

- Increases in productivity - (improvements in the quality of labour)
- Advancements in technology - (improvement in the quality of capital)
- Increase in investment - (more and better capital equipment?)
- Improvements in infrastructure (e.g. easier to transport goods and services)
- Increase in immigration - (increasing the quantity of labour)

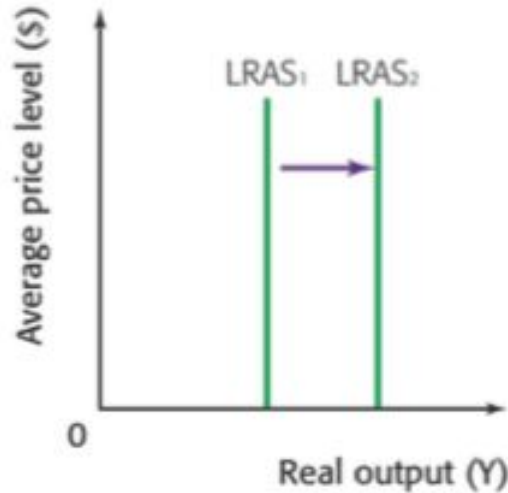
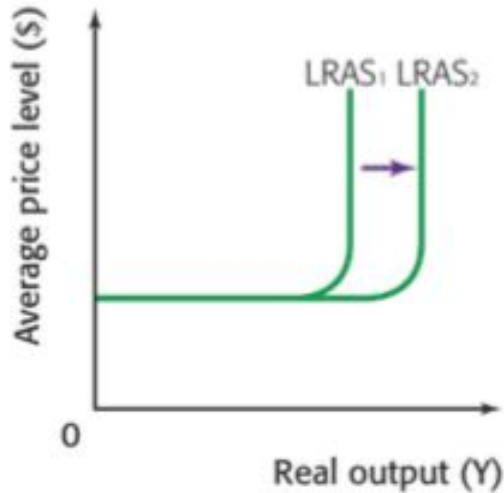


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Anything that will increase the quantity of quality of the factors of production will lead to an increase in potential growth.

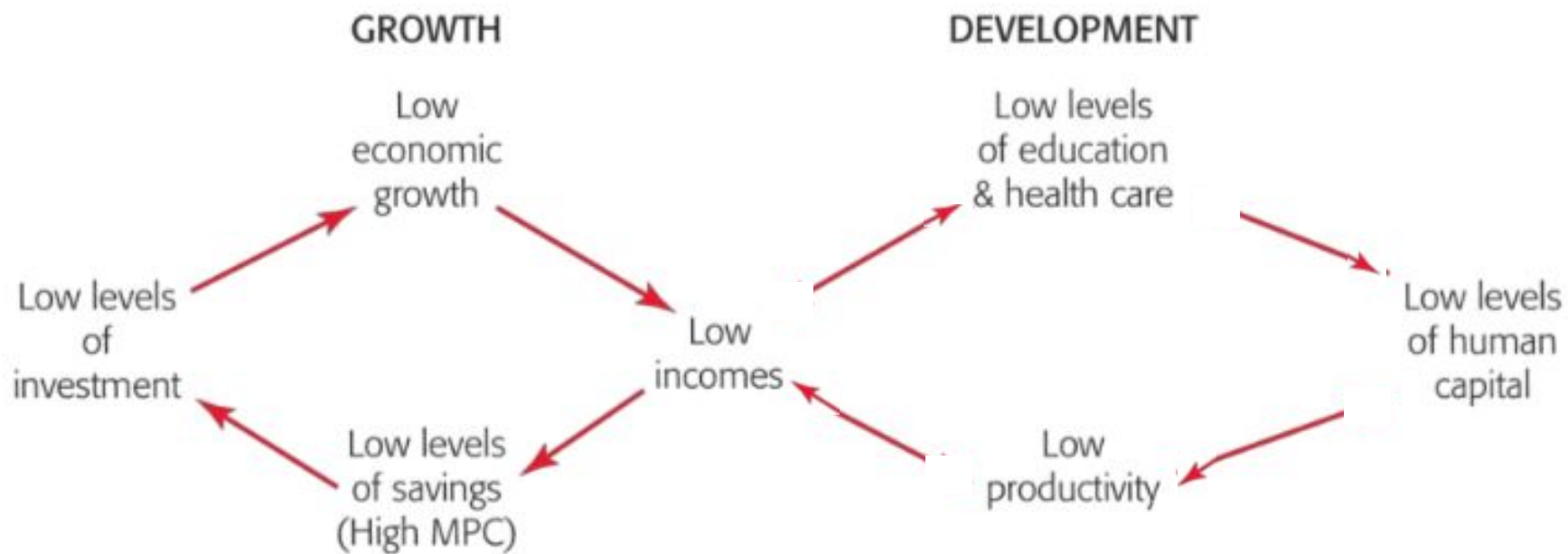
Economic growth and economic development



Economic growth means an increase in a country's Real GDP.



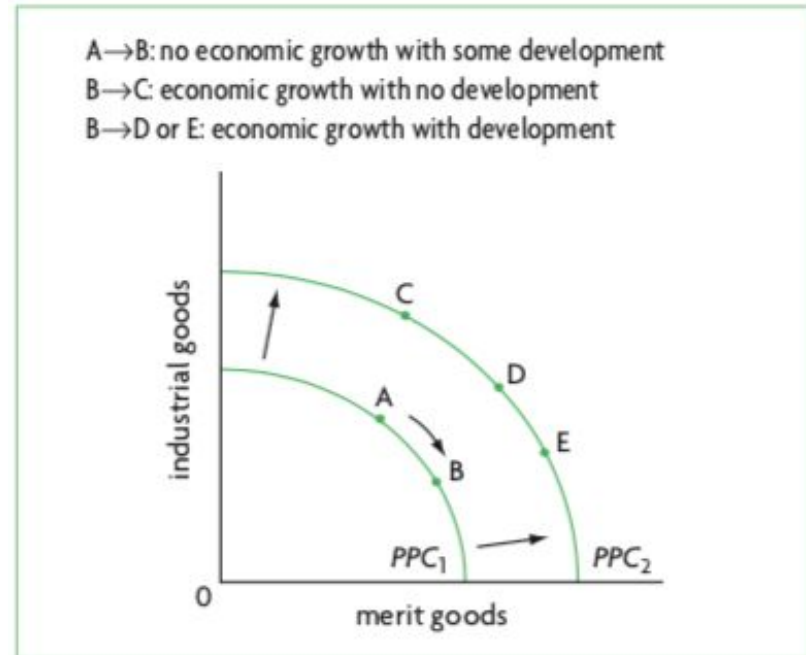
Economic development means a general rise in living standards and the quality of life



Economic growth can occur without economic development

Some economic development is possible in the absence of rapid growth, if appropriate policies are followed to provide access to basic social services for the poor.

On the PPC, an economy produces some combination of industrial goods and merit goods. The merit goods include education, health care services, sanitation, and clean water supplies, made available to people on low incomes, who would not otherwise have access to them. An economy that does not experience growth can still achieve some economic development, by re-allocating its resources such that it cuts back on industrial production and increases merit goods production; this would entail a movement along PPC_1 from point A to a point like B.



Economic Growth

Economic growth occurs when:

1. There is a discovery of new mineral/metal deposits.
2. There is an increase in the number of people in the workforce or the quality of the workforce improves. Example: training and education.
3. There is an increase in capital and machinery.
4. There is an improvement in technology.

Development

Measures of economic development will look at:

1. An increase in real income per head – GDP per capita.
2. The increase in levels of literacy and education standards.
3. Improvement in the quality and availability of housing.
4. Improvement in levels of environmental standards.
5. Increased life expectancy.

Sources of economic growth in LDCs

1. Natural resources

- a. Anything that will increase the quantity and/or quality of the factors of production should lead to an increase in potential growth.
 - i. Improved agricultural methods (e.g.fertilization), better planning of land usage (e.g. building upwards as opposed to outwards as in the case of Hong Kong)

2. Increases in the quantity of physical capital (incl. appropriate technologies)

- a. Investment in infrastructure, factory buildings, machinery, tools, vehicles

3. Improving the the quantity of human capital

- a. Education and training

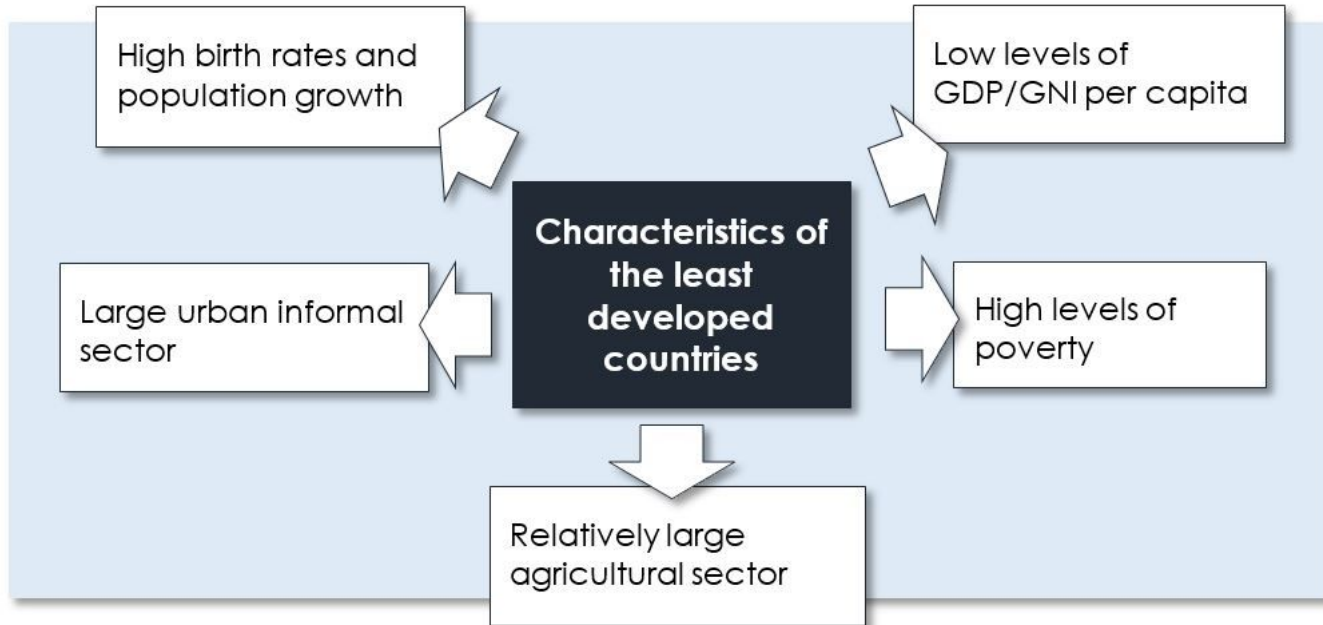
4. Institutional changes

- a. Reducing political corruption, rule of law, respecting property rights, secure banking system, political stability, good education.



See pp.332-333 of your textbook

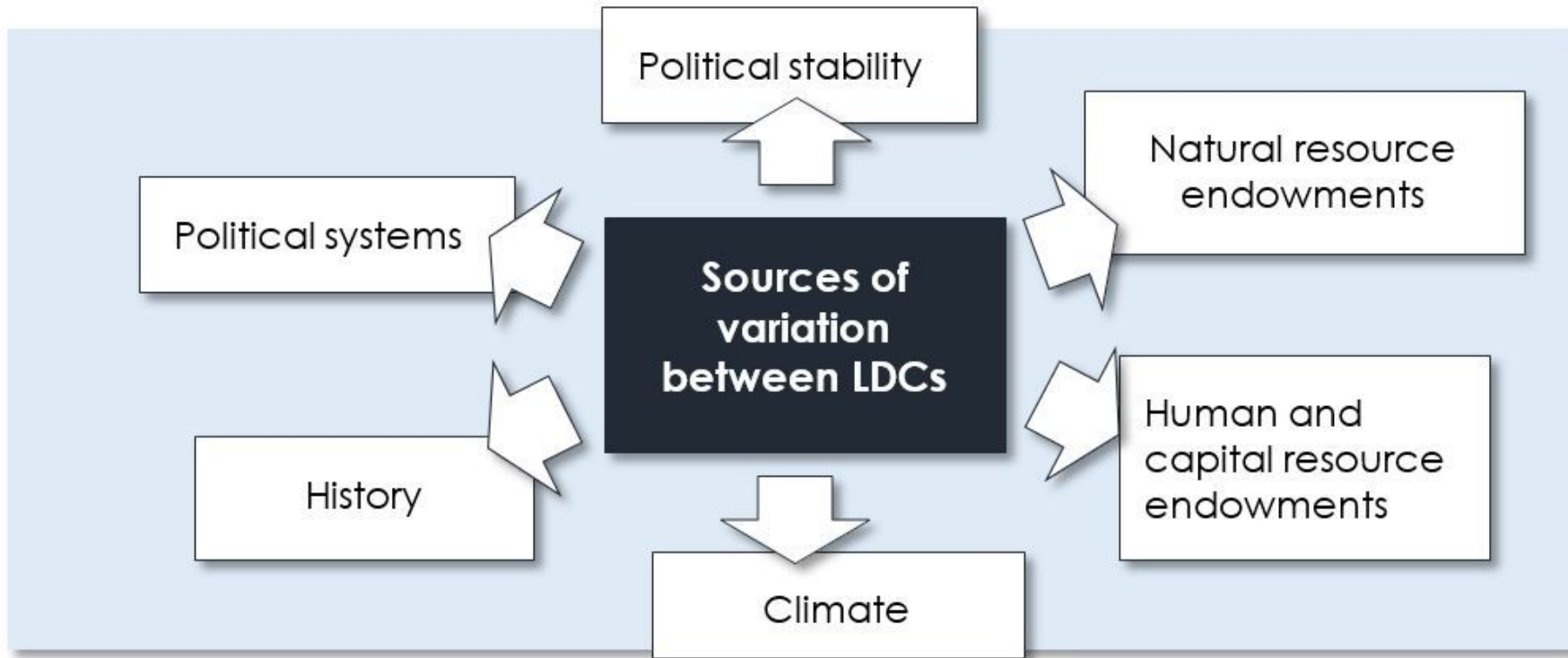
Common characteristics of most LDC's



Identify the reasons for this characteristics and the effects of them.

Diversity among developing countries

No two developing countries are the same, we have to be aware that no two developing countries are the same. Developing countries display diversity notable diversity in a number of areas.



International development goals

Despite the differences between different countries attempts are made to set development goals that can be adopted by all of them. The best known are the Millennium Development Goals.

