

ECONOMIC DEVELOPMENT: OVERVIEW

Lecture 1

EE461 – 1/2019

Today's content

- What's economic development?
- What's development economics?
- Measurement of economic development?

What's economic development?

- Economic development is the primary objective of the majority of the world's nations.
- Generally, we want to raise income, well-being, and economic capabilities of peoples.
- Economic development entails far-reaching changes in the structure of economies, technologies, societies, and political systems.

What's development economics?

- Development economics is the study of economies that do not fit many of the basic assumptions underpinning economic analysis in high-income countries.
- These basic assumptions are such as **well-functioning markets, complete market, perfect information, and low transaction costs.**
- *When these assumptions break down, e.g. **missing formal credit market or insurance market**, so do the most basic welfare and policy conclusions of economics.*
- *Hence, we need different frameworks to address issues that are more likely found in developing countries.*



PAGPAG: FOOD WASTE IS SURVIVAL FOR POOR FILIPINOS

- What are the root causes of problems mostly seen in developing countries?
- What characteristics do we use to evaluate the degree of “development” a country has undergone?

Measurement of economic development

How do we evaluate the degree of “development”?

- levels and rates of growth of per capita income?
- distribution of income?
- Non-monetary aspects, i.e. human development?

Country	Per capita income (1993 PPP)	Income share of poorest 40%	Income share of richest 20%
Sri Lanka	2,990	22	39
Guatemala	3,350	8	63

Country	Life expectancy (years)	Infant mortality rate (per 1000)	Access to safe water (% of pop.)	Adult literacy rate (%)
Sri Lanka	72	18	60	89
Guatemala	65	48	62	54

Measurement of economic development

- Per capita gross national product = per-head value of final goods and services produced by the people of a country
- <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>
- Using GNP per capita as an overall development indicator might be dangerous because it doesn't show how total income is shared.

Measurement of economic development

- Human Development Index (HDI) is a composited index of:
 - Long and healthy life: Life expectancy at birth (reflecting infant and child mortality)
 - Knowledge: a weighted average of adult literacy (2/3) and enrollment rates in primary, secondary and tertiary education (1/3)
 - A decent standard of living: Adjusted per capita income (less weight is given to higher incomes after \$5000 PPP)
- It is used to measure a country's development by the United Nations Development Programme ([UNDP](http://hdr.undp.org/en/content/human-development-index-hdi))'s Human Development Report Office.
<http://hdr.undp.org/en/content/human-development-index-hdi>

Is the HDI Enough to Measure a Country's Level of Development?

- According to the UNDP, the answer is:
- “Not at all.”
- “The concept of human development is much broader than what can be captured in the HDI, or any other composite indices...”
- “The HDI and the other composite indices can only offer a broad proxy on some of the key the issues of human development...”
- “A fuller picture of a country's level of human development requires analysis of other human development indicators and information.”

Measurement of economic development

- How much 'explanatory power' per capita income has over development indicators?
 - life expectancy at birth
 - infant mortality rate
 - adult literacy rate
- *Note: correlation between the two variables only says about the direction of relationship not the direction of causation !*
- The relationship between per capita income and the other indicators is strong, but far from perfect as we see no smooth curves b/w variables. Why?
 - the distribution of per capita income
 - government policy
 - the operation of various markets and institutions

Life expectancy and per capita income

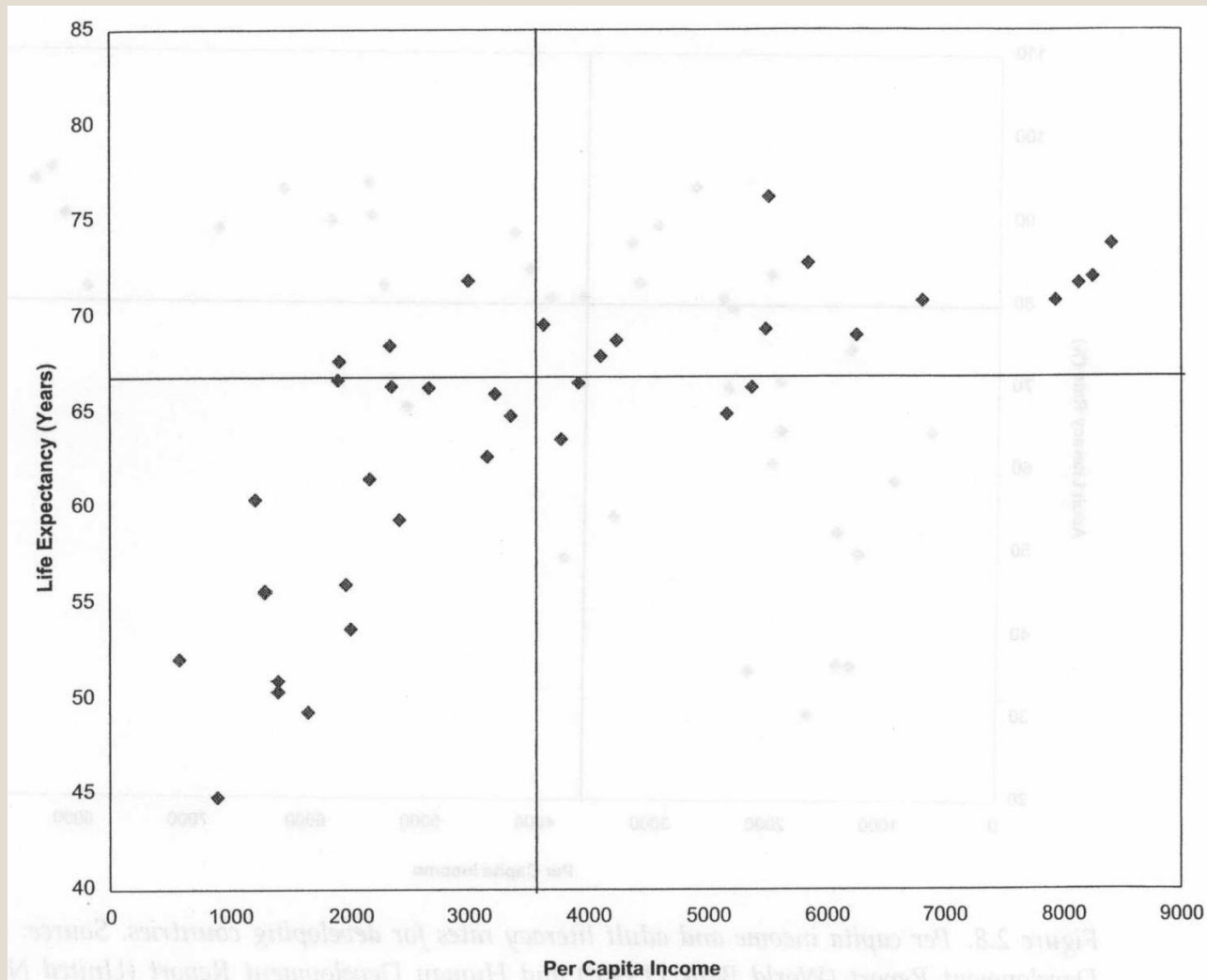


Figure 2.7. Per capita income and life expectancy for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

Adult literacy rates and per capita income

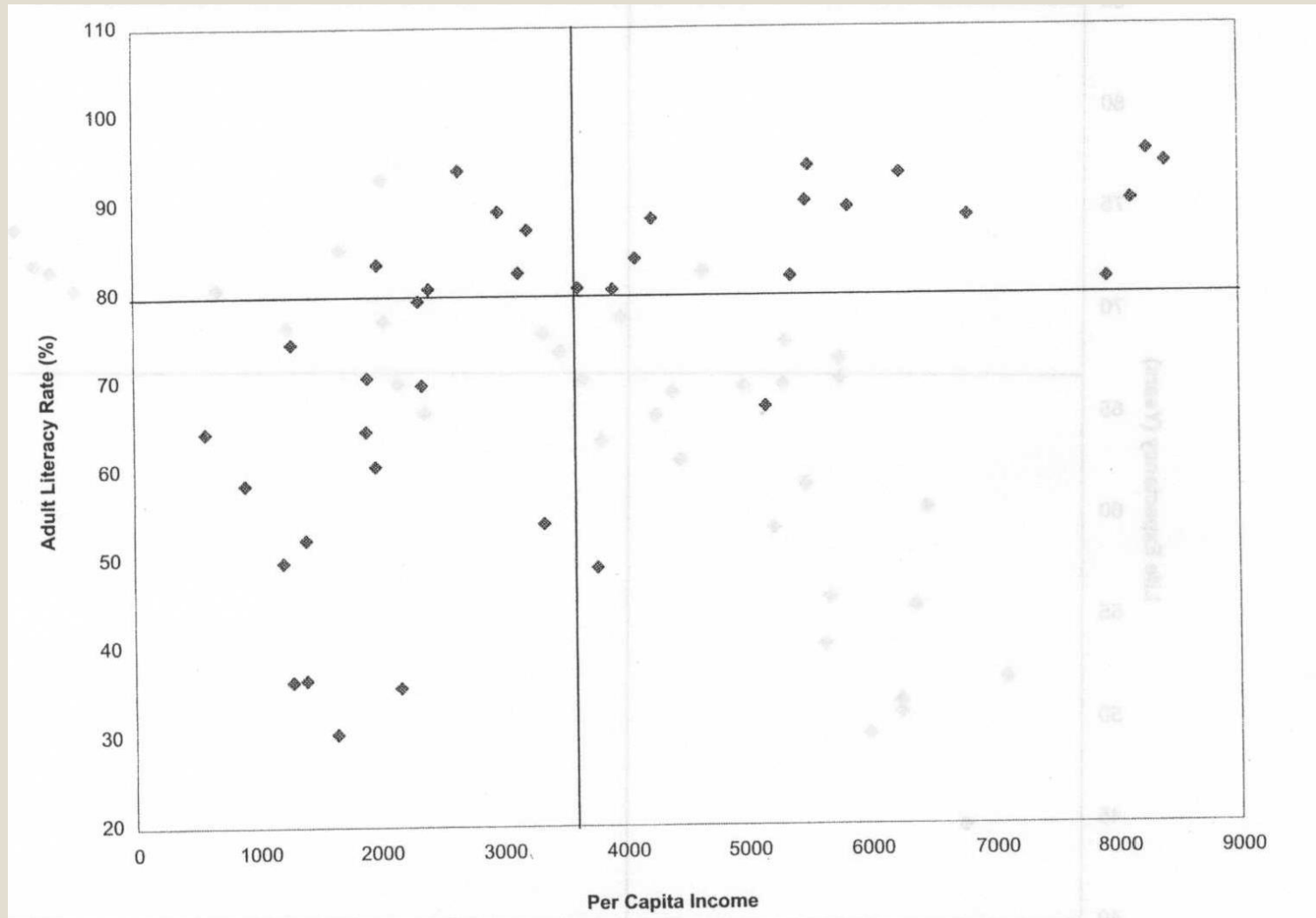


Figure 2.8. Per capita income and adult literacy rates for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

Infant mortality rates and per capita income

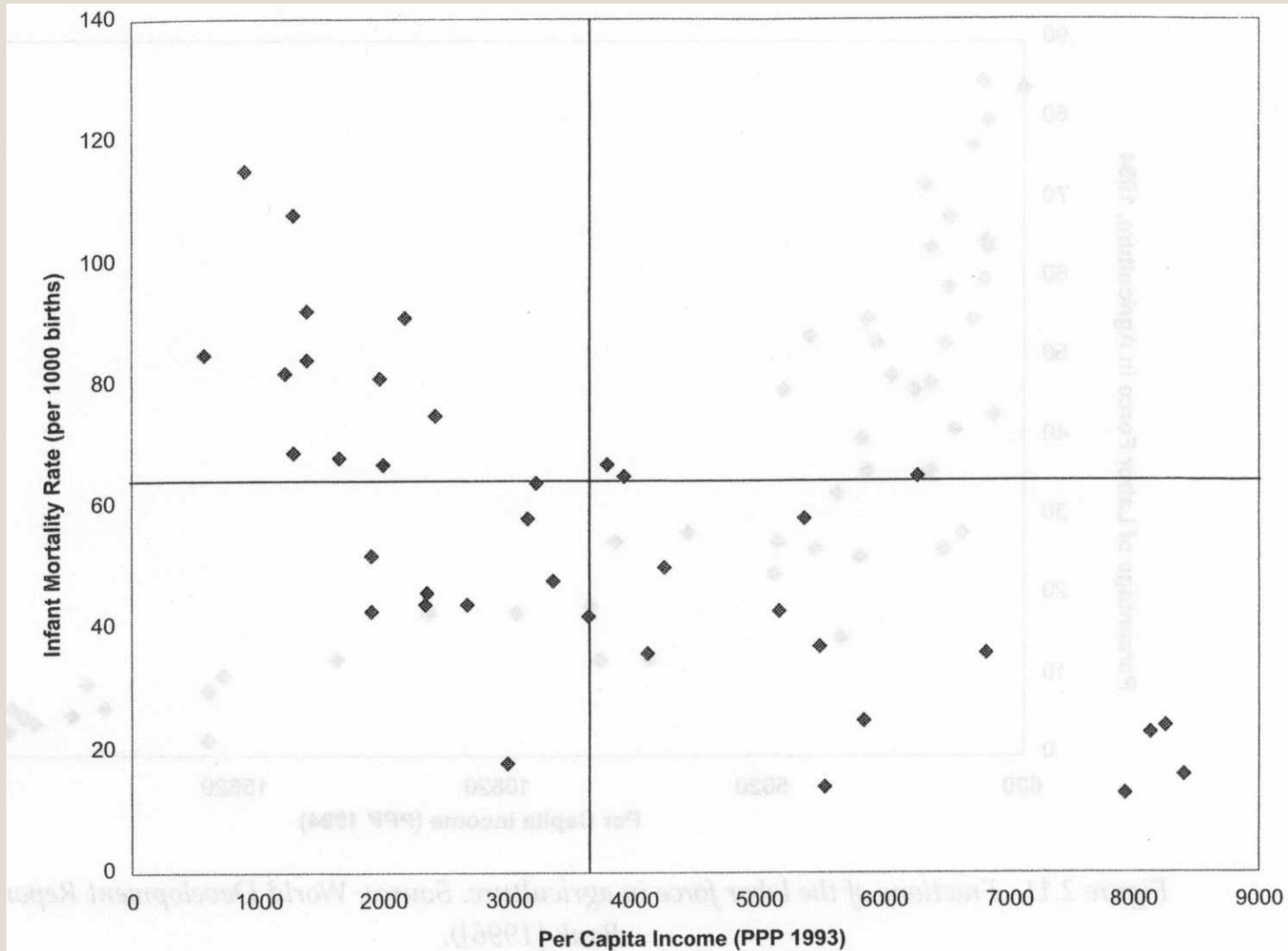


Figure 2.9. Per capita income and infant mortality rates for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

Grading

- Midterm Exam: 25%
- Final Exam: 50%
- Term paper: 25%

- Enrollment key for bemoodle: 1458

- <http://data.worldbank.org/>
- <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>
- <http://data.uis.unesco.org/Index.aspx>
- <http://datatopics.worldbank.org/gender/home>
- <http://blogs.worldbank.org/opendata/should-we-continue-use-term-developing-world>