

## Economic Development: Overview

Lecture 1  
 EE461 – 2/2013  
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### Measurement of economic development

How do we evaluate the degree of “development”?

- levels and rates of growth of per capital income?
- distribution of income?

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

- Human development
  - Middle-income countries have significantly higher inequality. GNP per capita as an overall development indicator might be dangerous.
- Human Development Index (HDI)
  - Life expectancy at birth (reflecting infant and child mortality)
  - Educational attainment: a weighted average of adult literacy (2/3) and enrollment rates in primary, secondary and tertiary education (1/3)
  - Adjusted per capita income (less weight is given to higher incomes after \$5000 PPP)

## Measurement of economic development

- How much 'explanatory power' per capita GDP has over development indicators?
  - life expectancy at birth
  - infant mortality rate
  - adult literacy rate
  - From the scatter plots, as we move into the range of countries with very high per capita income, these indicators are at high levels as well (lower for infant mortality rate).
- 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
  - social and cultural attitudes, government policy
  - the operation of various markets and institutions

### Life expectancy and per capita income

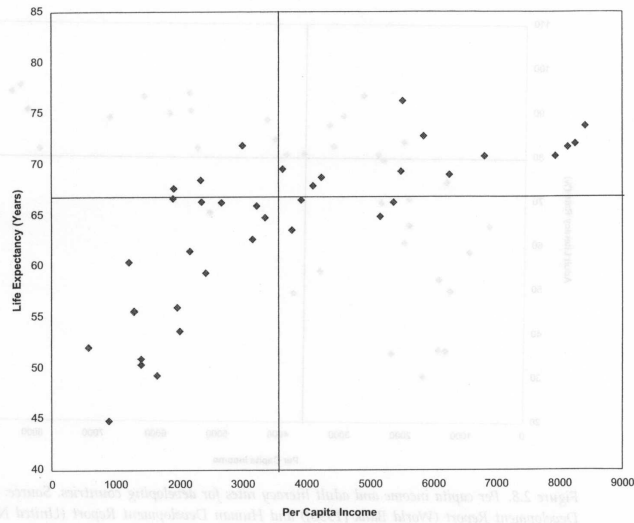


Figure 2.7. Per capita income and life expectancy for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

### Adult literacy rates and per capita income

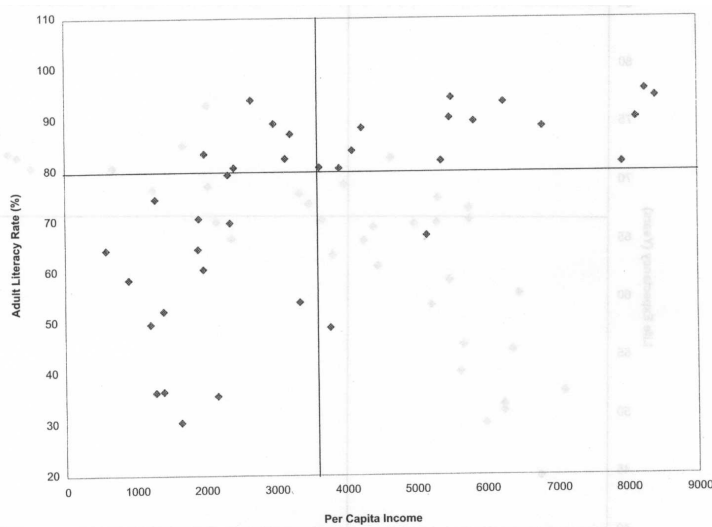
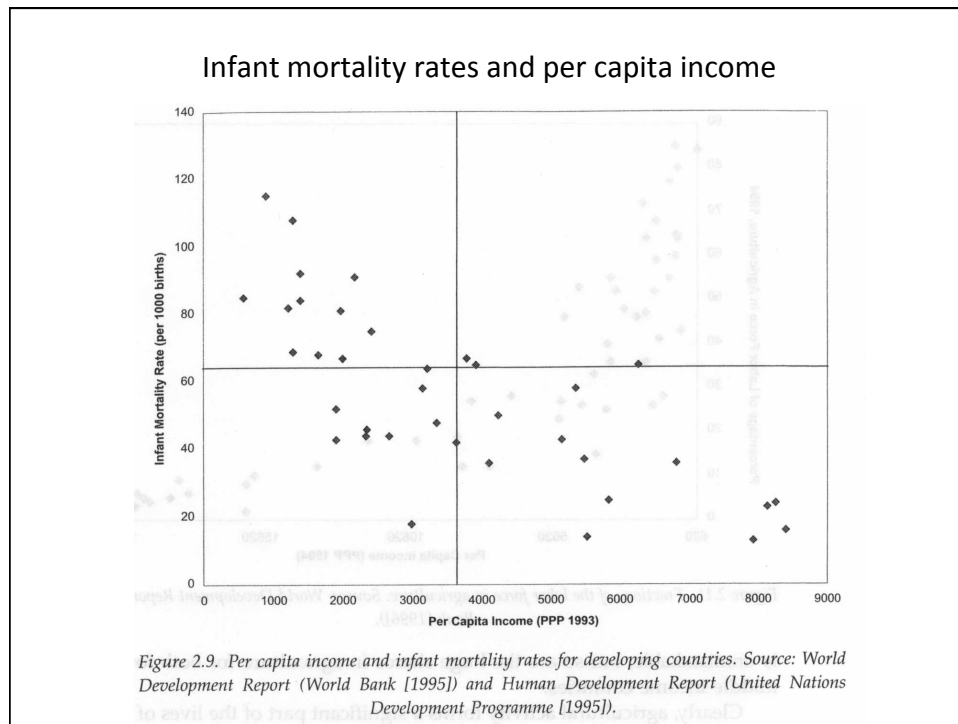


Figure 2.8. Per capita income and adult literacy rates for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).



## Structural characteristics of developing countries

- Demographic characteristics
  - As development proceeds, death rates plummet downward. Birth rates often remain high before go downward. At the beginning of development process, this leads to high population growth
  - Why not good for high population growth (high birth rates)?
    - help income to grow?
  - population growth rates tend to decline with increased per capita income

## Structural characteristics of developing countries

- Occupational and production structure
  - agricultural activity is still the main fraction (more people in agricultural sector)
  - low productivity, low value fraction in GDP
- Rapid rural-urban migration
  - rates of rural-urban migration are very high
  - large fraction of nonrural labor force is engaged in a nebulous activity called 'services'
    - These services activities are informal, waiting positions or fall back options for laborers lacking an industrial job.

## Fractions of the labor force in agriculture and per capita income

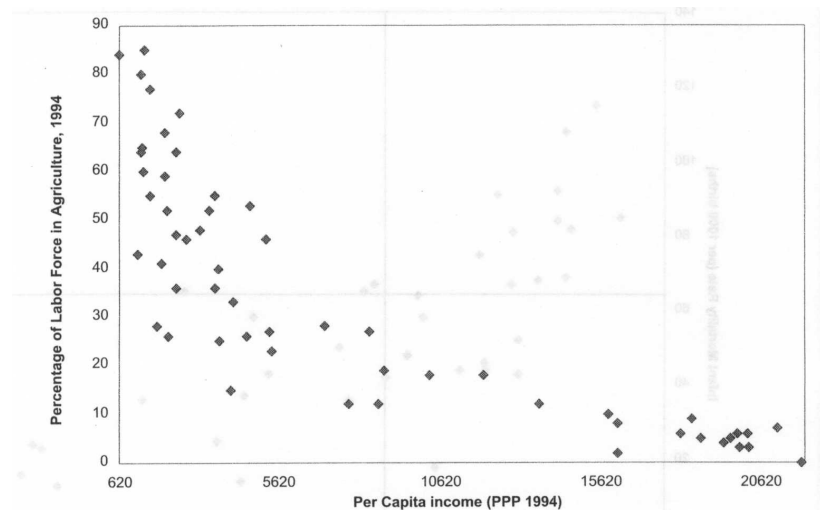


Figure 2.11. Fractions of the labor force in agriculture. Source: World Development Report (World Bank [1996]).

### Nonagricultural labor in services and per capita income

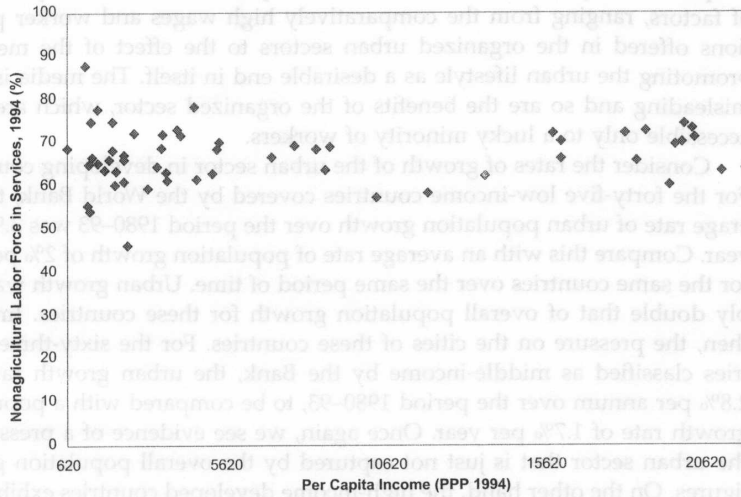


Figure 2.12. Nonagricultural labor in services. Source: World Development Report (World Bank [1996]).