

# Economic Development: Overview

Lecture 1

EE461 – 2/2016

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# What's development?

- Economic development entails far-reaching changes in the structure of economies, technologies, societies, and political systems.
- 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 well-functioning markets, perfect information, and low transaction costs.
- *When these assumptions break down, so do the most basic welfare and policy conclusions of economics*
  - *Hence, we need new tools.*

Ref: J. Edward Taylor

# 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
- <http://blogs.worldbank.org/opendata/new-country-classifications-2016>
- Middle-income countries have significantly higher inequality. Using GNP per capita as an overall development indicator might be dangerous.
- Human Development Index (HDI)
  - 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)

# 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
  - social and cultural attitudes, government policy
  - the operation of various markets and institutions

# Life expectancy and per capita income

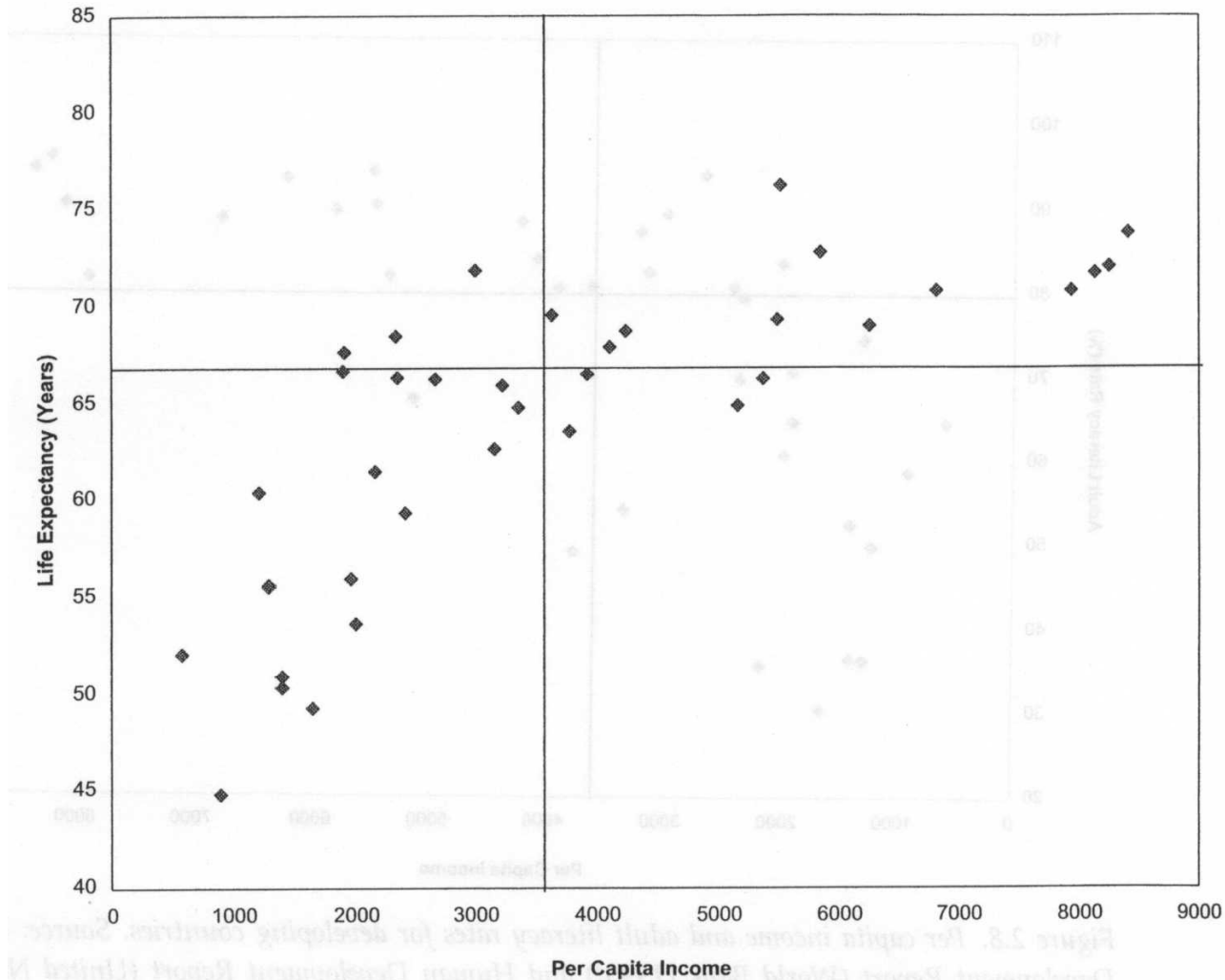


Figure 2.7. Per capita income and life expectancy for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

# Adult literacy rates and per capita income

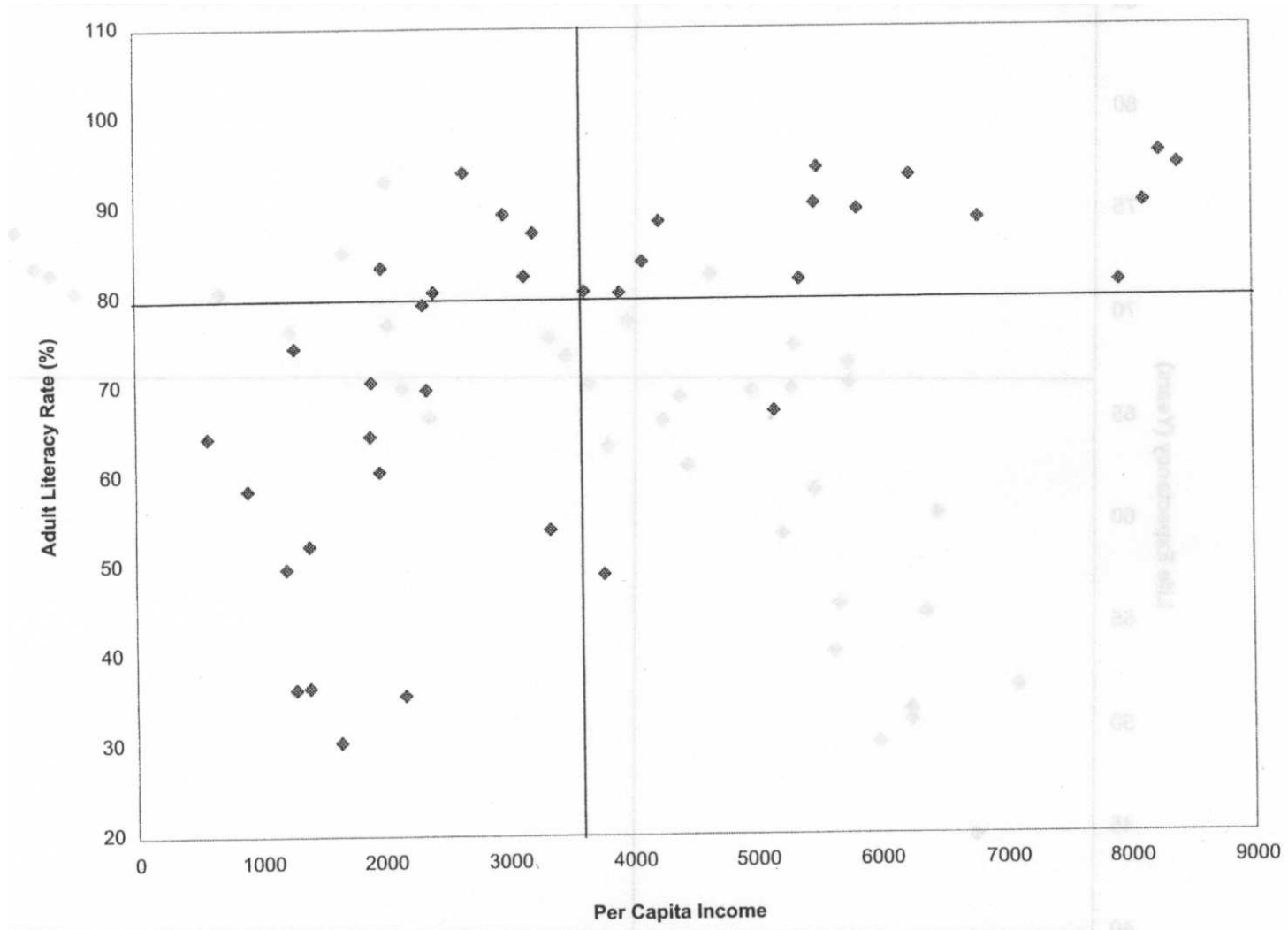


Figure 2.8. Per capita income and adult literacy rates for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

# Infant mortality rates and per capita income

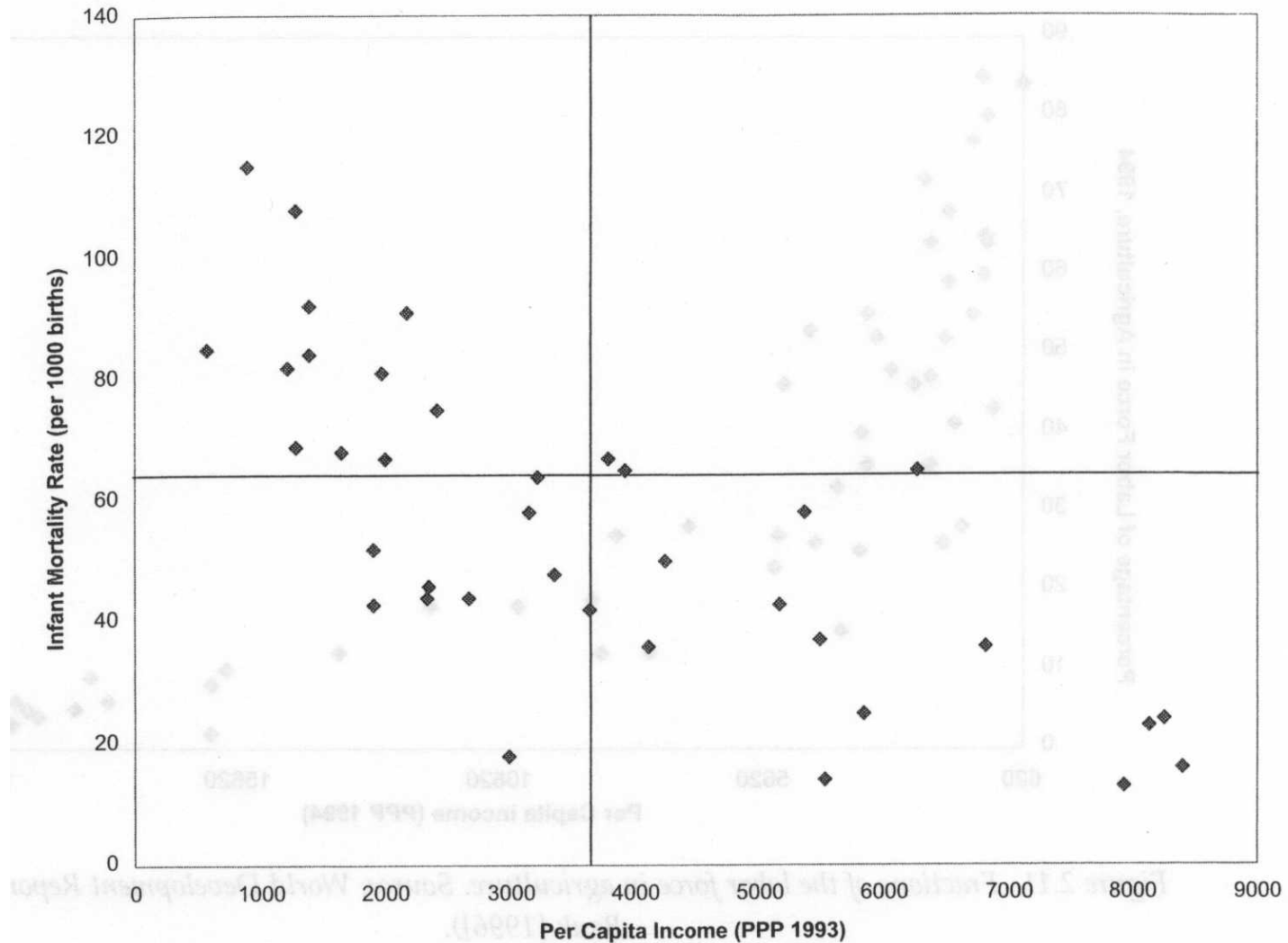


Figure 2.9. Per capita income and infant mortality rates for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

# 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? what if we don't have enough endowment?
    - population is heavily weighted with children >> consequences?
  - 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
  - ‘Push’ from agriculture vs. ‘pull’ of urban sector
  - 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

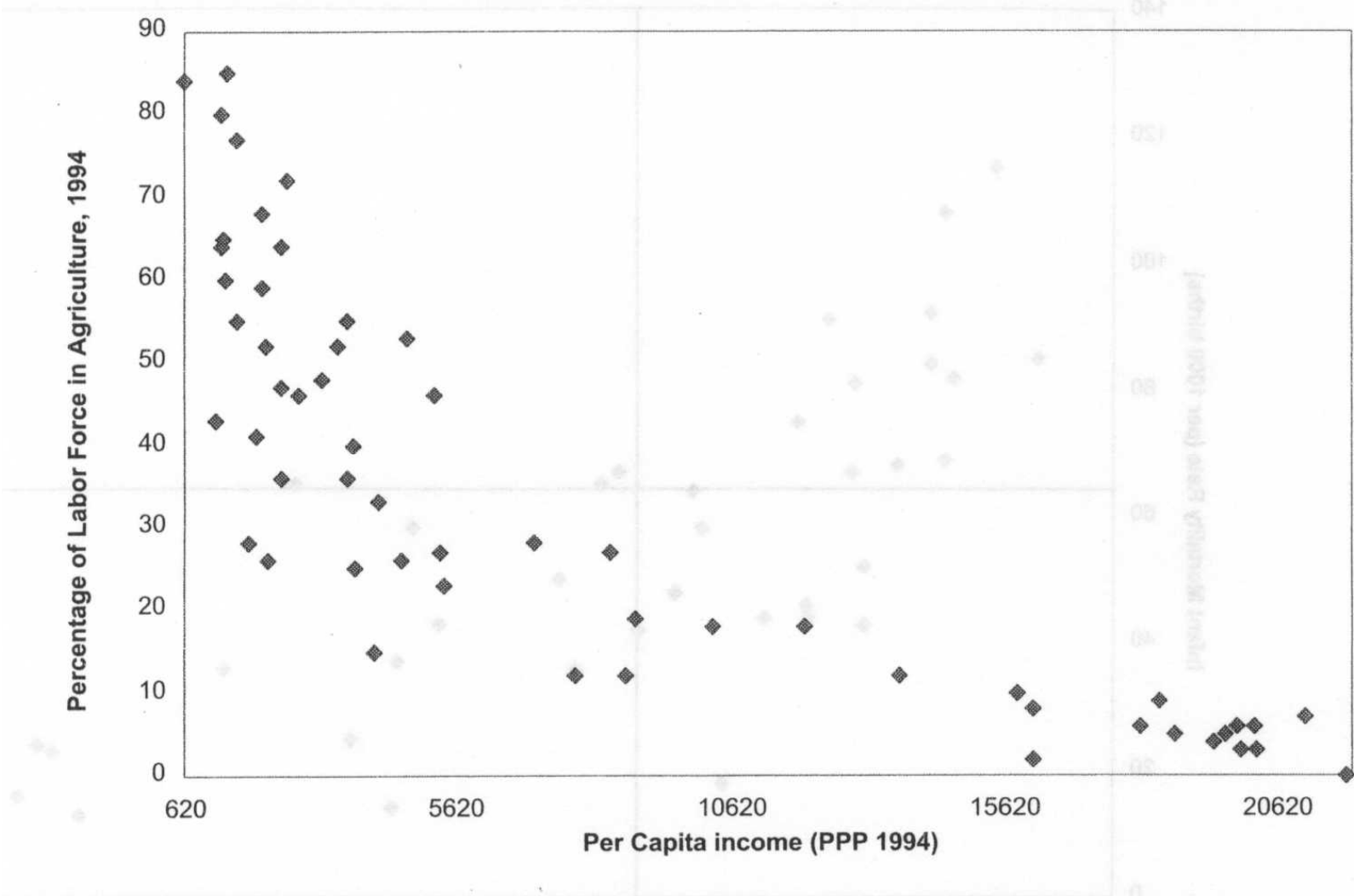


Figure 2.11. Fractions of the labor force in agriculture. Source: World Development Report (World Bank [1996]).

# Nonagricultural labor in services and per capita income

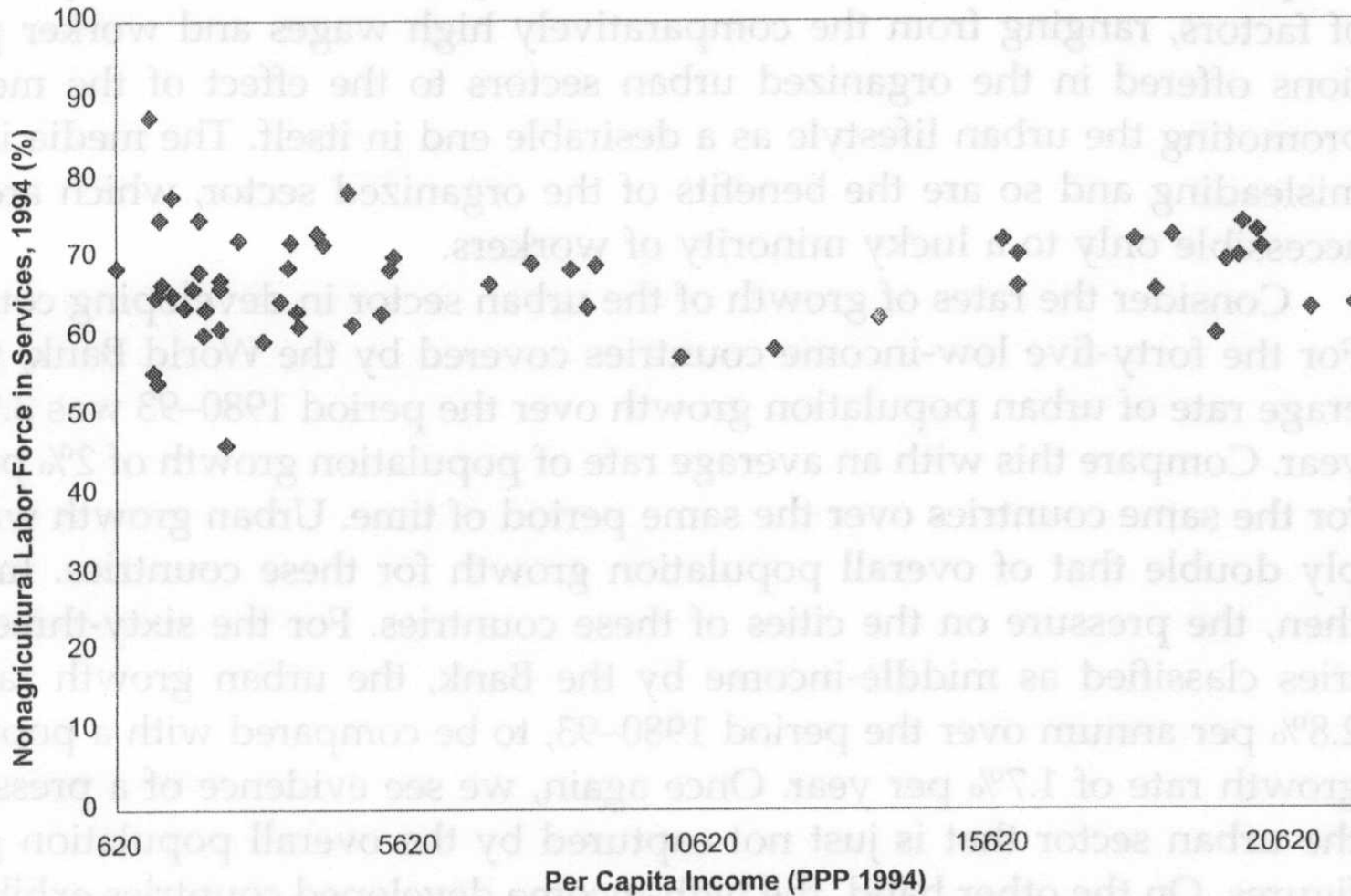


Figure 2.12. Nonagricultural labor in services. Source: World Development Report (World Bank [1996]).

- <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>