

WEEK 1

A: Introduction

Changes in the structure of the economy: **that occur with development**

Industrialisation	<ul style="list-style-type: none">• Increased share of production in industry• Decreased share of agriculture<ul style="list-style-type: none">◦ subsequent de-industrialisation
Specialisation / Marketization	<ul style="list-style-type: none">• Decrease in household production units• Increased share of goods and services sold on market<ul style="list-style-type: none">◦ larger enterprises emerge
Demographic Transition	<ul style="list-style-type: none">• Changes in population growth and demography• Decrease in death and birth rates• Eventual aging population
Urbanisation	<ul style="list-style-type: none">• Rural migration to towns• Provision of public goods becomes cheaper per capita

Development is brought about through...

- Increased literacy, education and medical care
- Developed systems of commerce, finance, transport
- Provision of social services and safety net
- Improved status and rights for women, minorities and marginalised individuals
- Expansion of political freedoms, civil and human rights.

Measuring Development

COMPARING BETWEEN COUNTRIES (examining income and distribution)

- GDP / capita
- Exchange rate
- Purchasing Power Parity
- Mobility Matrices

COMPARING WITHIN COUNTRIES

- Human Development Index
- Demographic Characteristics

	Definition	Elaboration
GDP / capita	<p>a measure of a country's economic output + indicator of development</p> <ul style="list-style-type: none"> • = GDP / population • measurement of a country's standard of living • Can be corrected to reflect purchasing power rather than exchange rates 	<p>PROBLEMS:</p> <ul style="list-style-type: none"> • Average Based; large variations can exist within the same country • Does not account for other variables; income distribution, poverty, inequality • Countries with similar GDP can vary in other outcomes <ul style="list-style-type: none"> ◦ High GDP ≠ high living standard
Exchange Rate Method	<p>Using exchange rates to convert local currencies into dollars</p> <ul style="list-style-type: none"> • Used to obtain per capita income of countries 	<p>DISPARITIES arise due to</p> <ul style="list-style-type: none"> • Underreporting of income • Price levels are systematically different across countries <ul style="list-style-type: none"> ◦ Nontraded goods and services tend to be cheaper in low-income than in high-income countries. ◦ price of the non traded good is higher in countries with higher labor productivity (due to differences in production tech)
Purchasing Power Parity	<p>Used to measure economic variables in different countries</p> <p>... so that irrelevant exchange rate variations do not distort comparisons</p>	<p>Countries can adjust GDP figures to reflect PPP</p> <ul style="list-style-type: none"> • Constructs international prices that are used to estimate national incomes
Mobility Matrices	<p>The ability of a unit to improve (or lower) their economic status through movement between income brackets</p>	<p>Middle income countries have significantly higher mobility than either the poorest or richest countries</p>
Human Development Index	<p>Index of development constructed from three measures</p> <ul style="list-style-type: none"> • Life expectancy • Educational attainment • GDP / capita 	<p>Correlates well with GDP per capita</p>