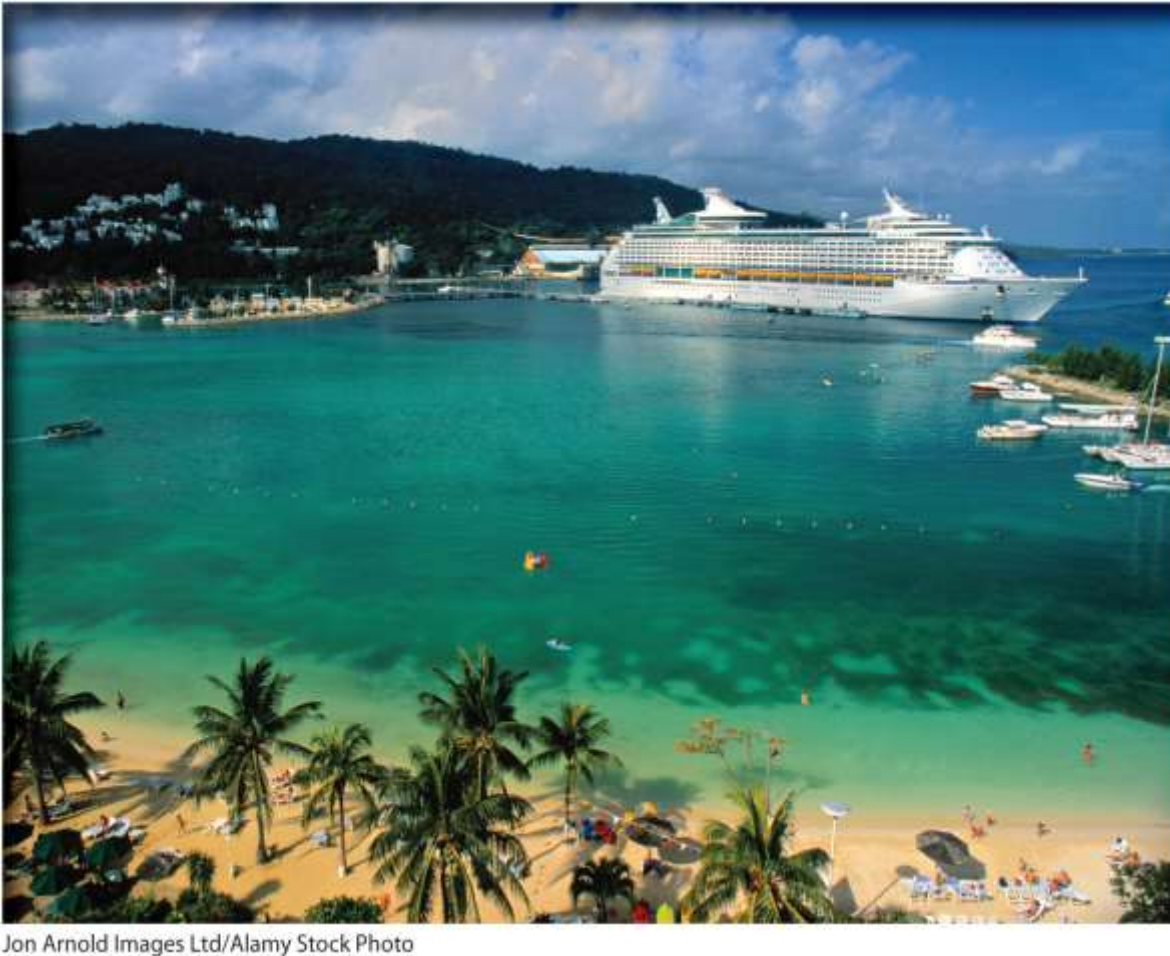


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Economic Growth and Development



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LEARNING OBJECTIVES

1. Explain the primary goals and measures of economic development
2. Describe strategies for achieving economic growth
3. Identify major challenges facing developing countries
4. Discuss success stories and failures in economic development

MEASURES OF ECONOMIC GROWTH AND DEVELOPMENT

- **Economic growth**—an increase in the productive capacity of an economy.
- **Real GDP per capita**—output per person, adjusted for inflation.
- **Economic development**—a combination of economic growth and a broader set of nonmaterial improvements in the quality of life.
- **Developing countries**—countries whose citizens experience a relatively low quality of life.

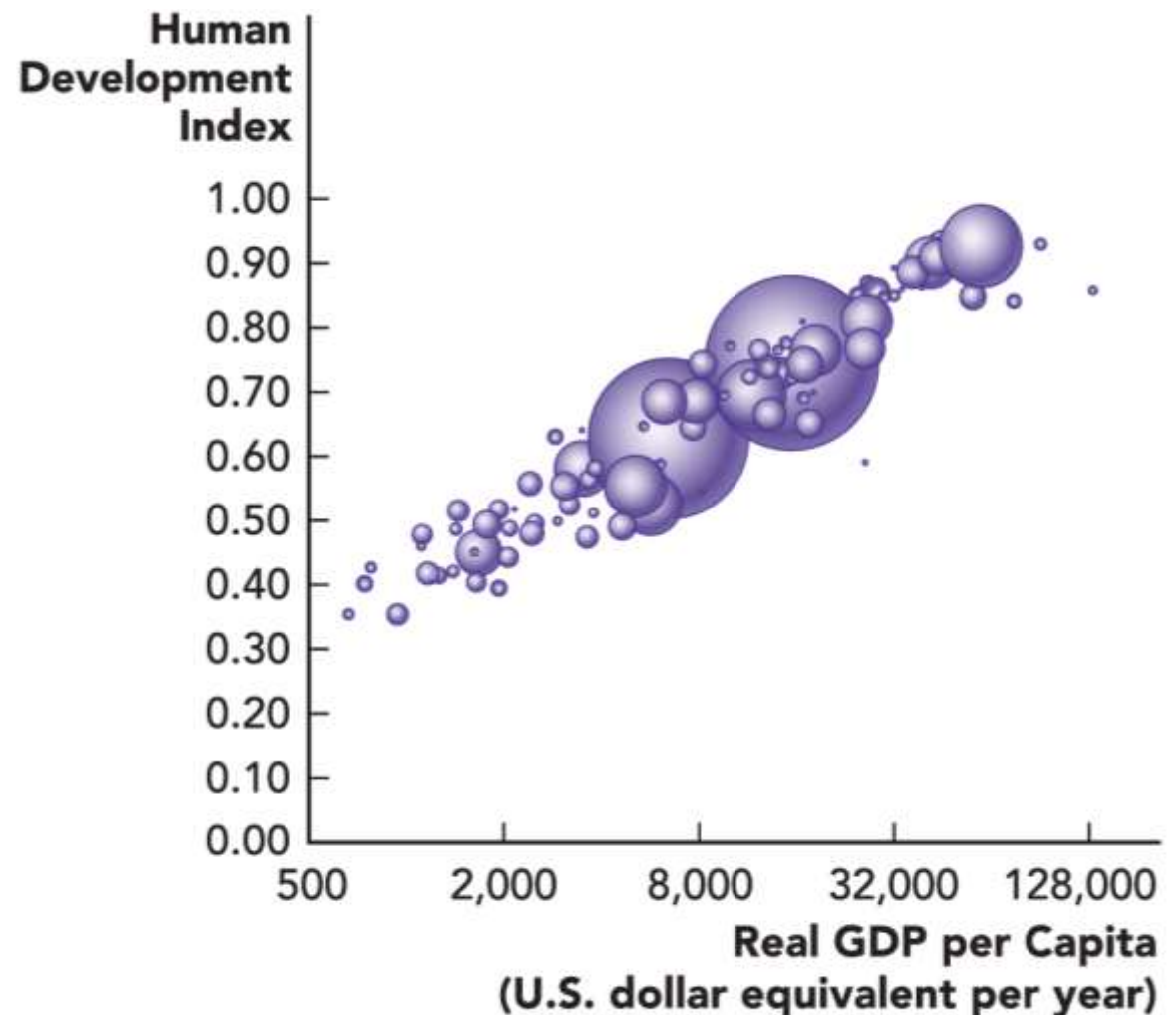
HUMAN DEVELOPMENT INDEX (HDI)

- The **Human Development Index** measures the progress of countries based on their citizens' life expectancy, years of schooling, and income per capita.

Rank	Country	HDI
The Top 10 Countries		
1	Norway	0.949
2	Australia	0.939
2	Switzerland	0.939
4	Germany	0.926
5	Denmark	0.925
5	Singapore	0.925
7	Netherlands	0.924
8	Ireland	0.923
9	Iceland	0.921
10	Canada	0.920
10	United States	0.920
The Bottom 10 Countries		
179	Eritrea	0.420
179	Sierra Leone	0.420
181	Mozambique	0.418
181	South Sudan	0.418
183	Guinea	0.414
184	Burundi	0.404
185	Burkina Faso	0.402
186	Chad	0.396
187	Niger	0.353
188	Central African Republic	0.352

HDI AND REAL GDP PER CAPITA

- There is a strong correlation between a country's real GDP per capita and its Human Development Index value. This makes economic growth a valid goal for policy makers seeking much broader improvements in the quality of life.



GLOBAL COMPARISONS

The gap between developed and developing countries is wide.

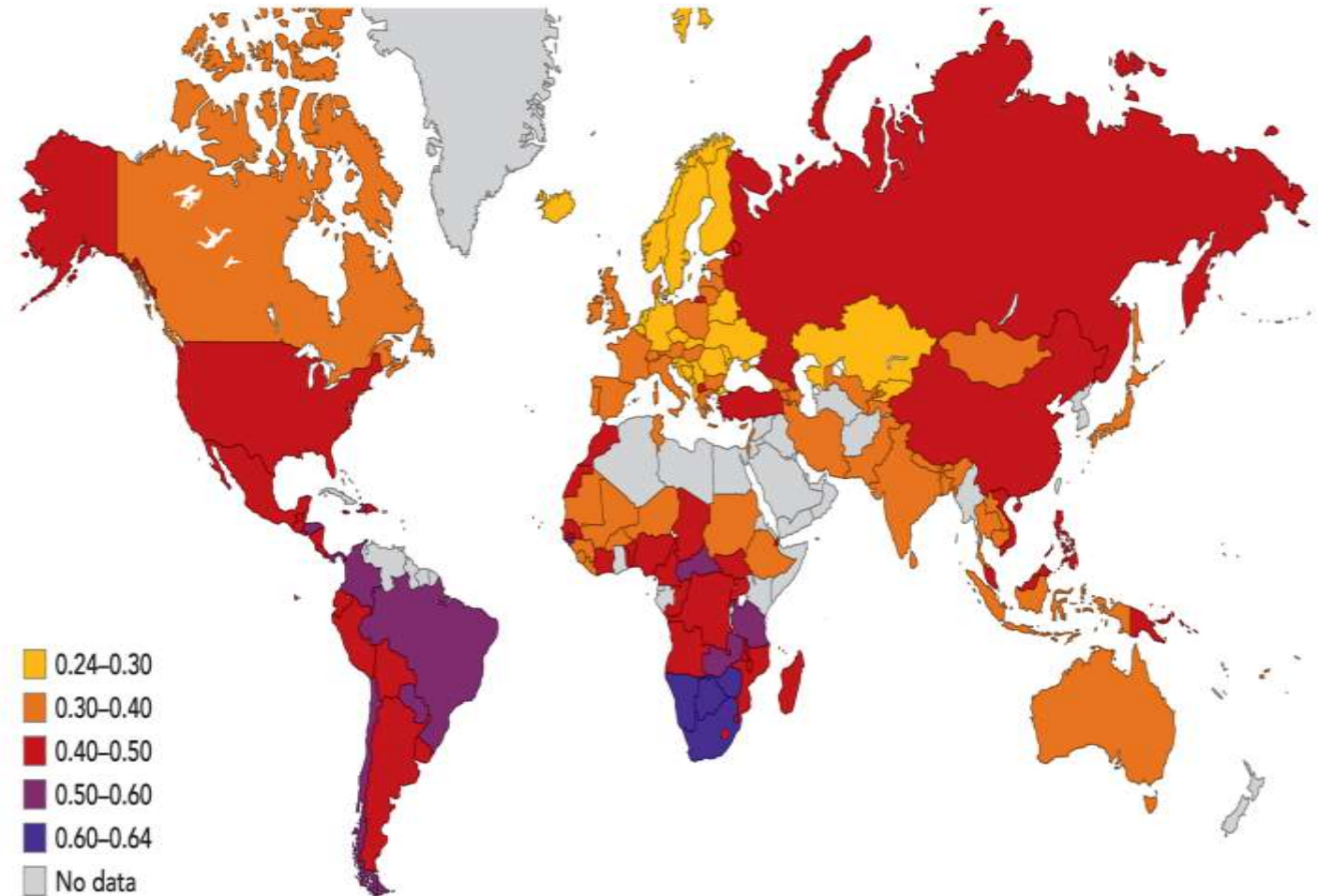
- In the United States, there are 2.4 doctors per 1,000 citizens, and 7 out of 1,000 babies die in infancy.
- In Sierra Leone, there are 0.02 doctors per 1,000 citizens, and 114 out of 1,000 babies die in infancy.



Nick Ledger/Getty Images

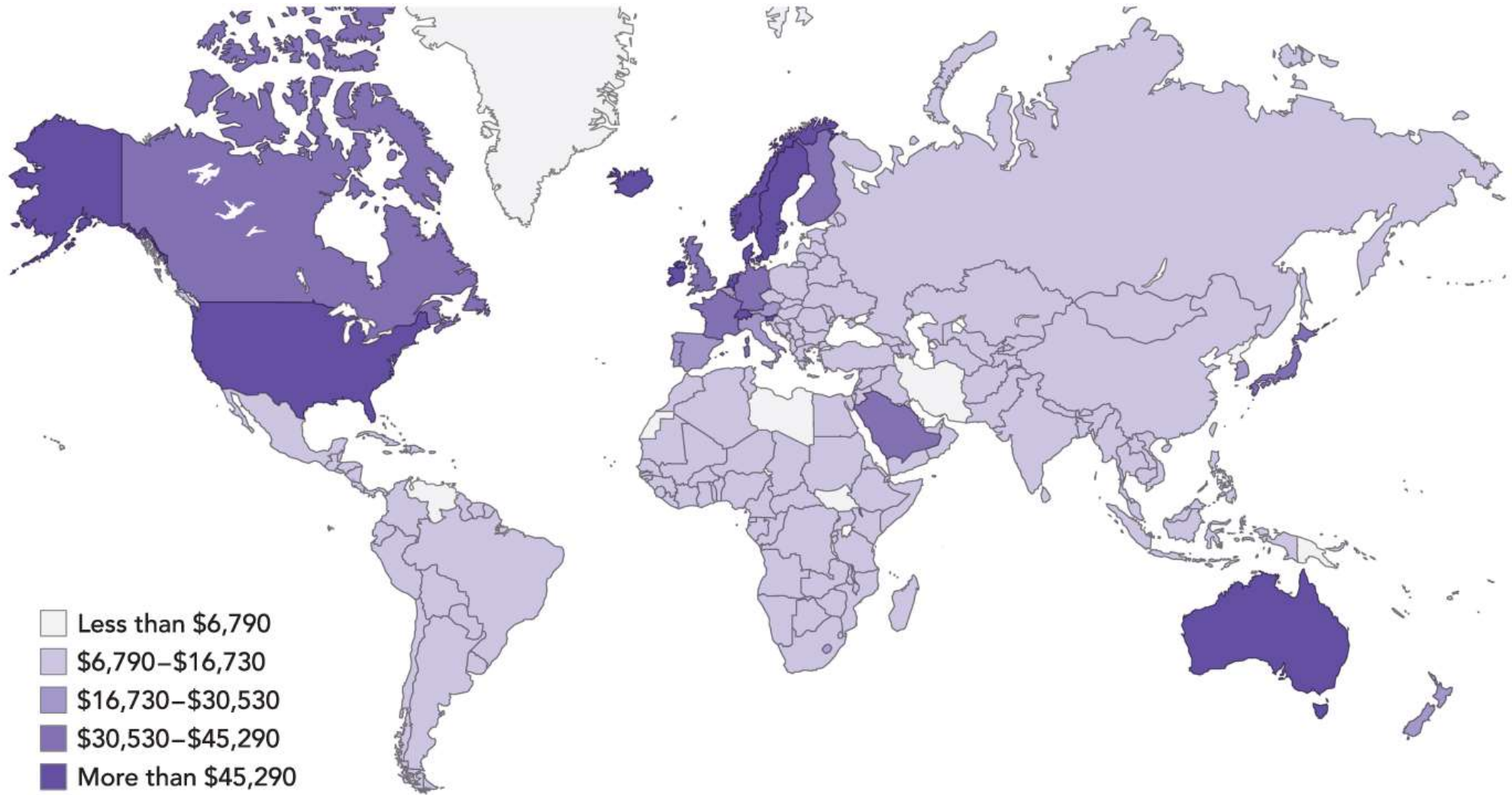
GINI COEFFICIENT

- **Gini coefficient**—a measure of income inequality that equals 0 if incomes in the country are equal and equals 1 if the richest person earns all the income.

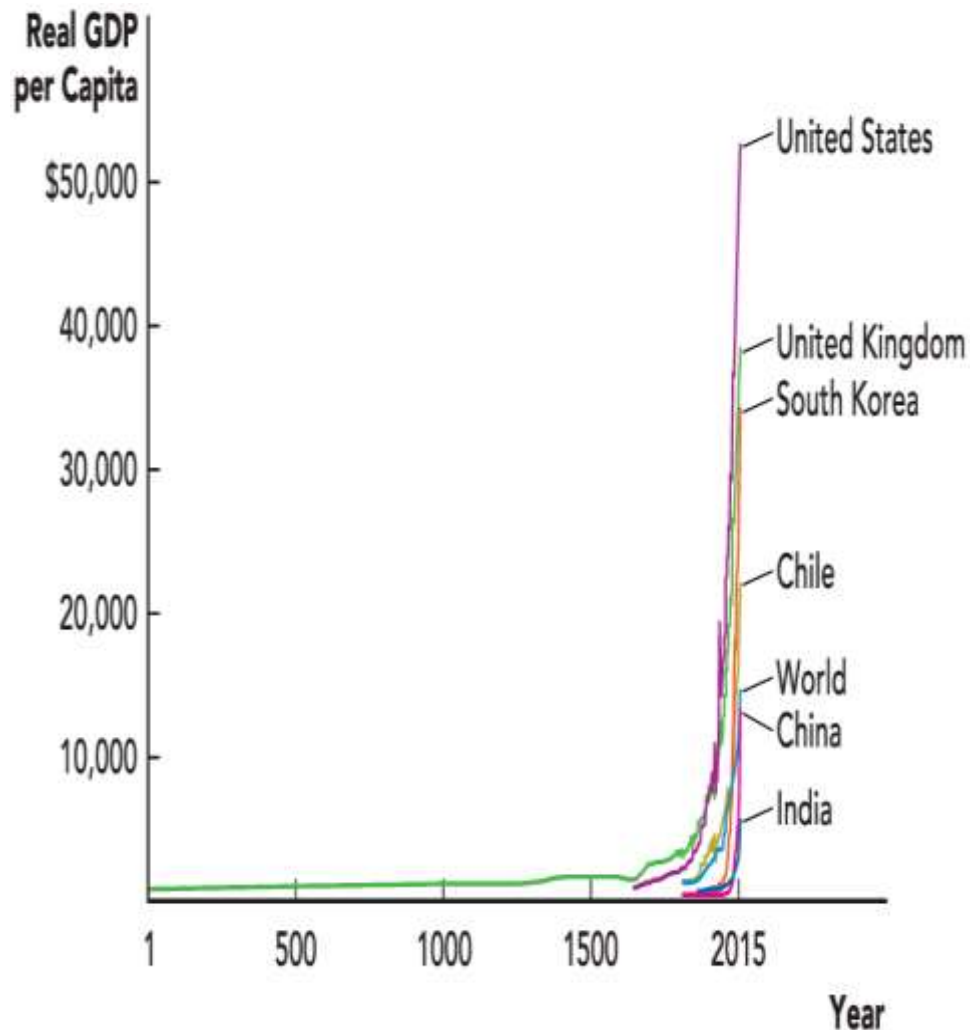


Anderson, *Survey of Economics*, © 2019 Worth Publishers

REAL GDP PER CAPITA PART I



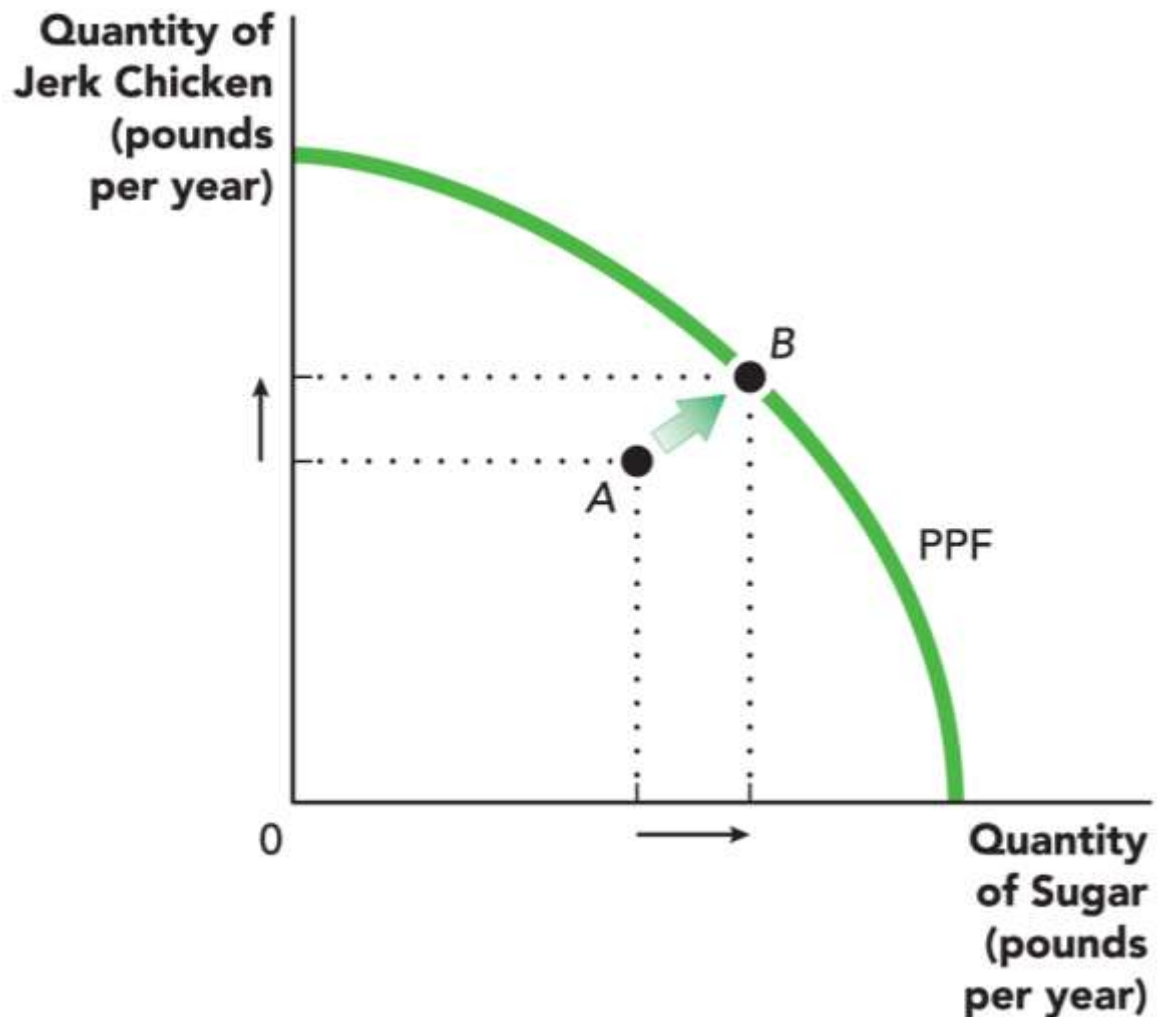
REAL GDP PER CAPITA PART II



Country	Growth Rate
Countries with Rapidly Increasing Real GDP per Capita	
Ireland	9.95%
Ethiopia	7.56
Nauru	7.51
China	6.33
Myanmar	6.23
Uzbekistan	6.19
India	5.94
Turkmenistan	5.90
Bangladesh	5.77
Lao P.D.R.	5.65
Countries with Rapidly Decreasing Real GDP per Capita	
Yemen	-12.62%
Venezuela	-10.85
Equatorial Guinea	-9.19
South Sudan	-8.72
Timor-Leste	-7.39
Qatar	-4.64
Suriname	-4.56
Macao SAR	-4.14
Libya	-3.63
Brunei Darussalam	-2.99

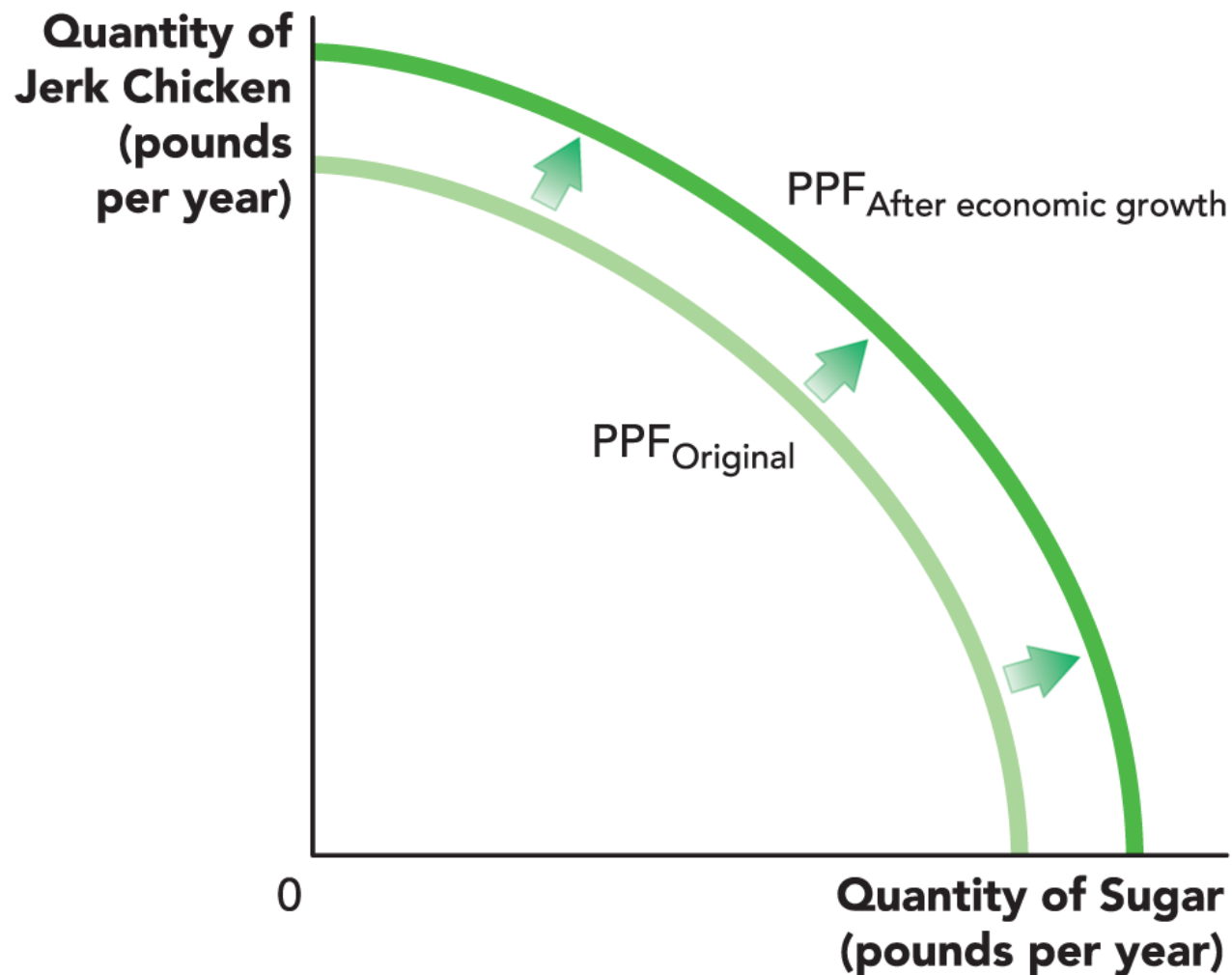
ECONOMIC GROWTH AND THE PRODUCTION POSSIBILITIES FRONTIER PART I

- We can use the **production possibilities frontier (PPF)** to illustrate the difference between economic growth and a more productive use of existing resources.
- If a country is producing less than it could, this is represented by a point inside the PPF as shown by point A.



ECONOMIC GROWTH AND THE PRODUCTION POSSIBILITIES FRONTIER PART II

- In the long run, improvements in technology, the capabilities of workers, or the availability of factors of production can shift the PPF outward.
- This represents economic growth in the economy rather than an increase in capacity utilization.



LEARN BY DOING: PRACTICE QUESTION 1

A country passes a law raising the minimum level of education funded by the government. This allows young adults to further their education in preparation for the workforce. In the long run, what effect will this have?

- a) a decrease in capacity utilization
- b) an increase in economic growth
- c) an increase in capacity utilization
- d) a decrease in economic growth

LEARN BY DOING: PRACTICE QUESTION 1

(Answer)

A country passes a law raising the minimum level of education funded by the government. This allows young adults to further their education in preparation for the workforce. In the long run, what effect will this have?

- a) a decrease in capacity utilization
- b) an increase in economic growth (correct answer)**
- c) an increase in capacity utilization
- d) a decrease in economic growth

STRATEGIES FOR ACHIEVING ECONOMIC GROWTH

Strategies used for achieving economic growth can emphasize expansion in:

- human capital
- physical capital
- monetary policy
- research and development
- foreign direct investment
- various types of loans



STRATEGIES FOR ACHIEVING ECONOMIC GROWTH PART II

- **Human capital**—workers' skills, knowledge, and experience.
- **Research and development (R&D)**—work directed toward the creation or improvement of products or processes.
- **Foreign direct investment (FDI)**—an investment made to acquire a lasting interest in a firm operating in another country.
- **Microcredit**—the extension of small loans to impoverished borrowers.

CROWDFUNDING

Crowdfunding—a form of microcredit that funds projects by pooling together small amounts of money from large amounts of people.

- **Debt crowdfunding**—money lent out to borrowers may or may not receive interest payments, depending on the arrangement.
- **Equity crowdfunding**—gives investors the opportunity to be part-owners of a business or other project.
- **Donation crowdfunding**—people seeking funding list rewards for their donors.



CHALLENGES FOR DEVELOPING COUNTRIES

- Crime and corruption
- Geography
- Weak institutions
- Unfit leadership



Dave Anderson

PROGRESS IN ECONOMIC DEVELOPMENT

No single strength guarantees a country's prosperity, and no single weakness spells inevitable doom.

Success stories:

- the Bahamas
- Hong Kong
- Singapore
- Taiwan

Stories of failure:

- Jamaica
- many countries in Africa

LEARN BY DOING: PRACTICE QUESTION 2

Imani wants to start her own business but lacks the capital. She decides to allow investors to become part-owners of her company in exchange for their funding. What kind of capital-raising strategy has Imani employed?

- a) debt crowdfunding
- b) research and development
- c) equity crowdfunding
- d) real GDP per capita

LEARN BY DOING: PRACTICE QUESTION 2

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- a) debt crowdfunding
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- c) equity crowdfunding (correct answer)**
- d) real GDP per capita