

Development Economics: Microeconomic Approach

Course Instructor
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PEARSON ADDISON-WESLEY

Economic Development
11th Edition
MICHAEL P. TODARO | STEPHEN C. SMITH

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Development Economics

- Course Outline
- Detailed Syllabus
- Class attendance,
- Reading assignments,
- Active class participation and weekly presentation (30% of the total grade)
- Term Paper (30% of the total grade)
- Final Exam (40% of the total grade)

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Chapter 1:

Economics, Institution and Development: A Global Perspective

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What do we mean by Development?

Traditionally it meant, capacity of national economy, whose initial economic condition is static for a long time, to generate and sustain an *annual increase of GNI at rates of 5% to 7% or more*. Alternative measure could be *the rate of growth of income per capita*, an ability of a nation to expand its output further than the growth rate of its population.



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What do we mean by Development?

Modern view of Development

(Thanks to Professor Amartya Sen, Noble laureate in Economics 1998)

1. Sustenance: The ability to meet basic Needs
2. Self-Esteem: To be a person (a sense of worth and self-respect).
3. Freedom from Servitude: To be able to choose.
(for example, freedom of expression, equality of opportunity and freedom to choose.)



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Three objectives of Development

- To increase the availability and widen the distribution of basic life-sustaining goods (*e.g. food, shelter, protection and health*);
- To raise levels of living (*e.g. availability of more jobs, better education, better environment, greater attention to human values*);
- To expand the range to economic and social choices.


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Millennium Development Goals

- 1: Eradicate extreme poverty and hunger
- 2: Achieve universal primary education
- 3: Promote gender equality and empower women
- 4: Reduce child mortality
- 5: Improve maternal health
- 6: Combat HIV/AIDS, malaria and other diseases
- 7: Ensure environmental sustainability
- 8: Develop a Global Partnership for Development

Source: <http://www.undp.org/mdg>



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Why Development is Important?

"A world is like the human body: If one part aches, the rest will feel it; if many parts hurt, the whole will suffer."

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Chapter 2 Supplement

Comparative Economic Development



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Common characteristics of developing countries

- Lower levels of living and productivity
- Lower levels of human capital
- Higher levels of inequality and absolute poverty
- Higher population growth rates
- Greater social fractionalization
- Larger rural population- rapid migration to cities
- Lower levels of industrialization and manufactured exports
- Adverse geography
- Underdeveloped financial and other markets
- Colonial legacies- poor institutions etc.

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Defining the Developing World

- World Bank Scheme- ranks countries on GNP/capita
 - LIC, LMC, UMC, OECD (see Table 2.1 and figure 2.1)

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Table 2.1 Classification of Economies by Region and Income, 2007

East Asia and the Pacific		Latin America and the Caribbean		South Asia	
American Samoa	UMC	Argentina	UMC	Afghanistan	LIC
Cambodia	LIC	Barbados	UMC	Bangladesh	LIC
China	LMC	Belize	UMC	Bhutan	LIC
Fiji	LMC	Bolivia	LMC	India	LIC
Indonesia	LMC	Brazil	LMC	Maldives	LMC
Kiribati	LMC	Chile	UMC	Nepal	LIC
Korea, Dem. Rep.	LIC	Colombia	LMC	Pakistan	LIC
Lao PDR	LIC	Costa Rica	UMC	Sri Lanka	LMC
Malaysia	UMC	Cuba	LMC		
Marshall Islands	LMC	Dominica	UMC		
Micronesia, Fed. Sts.	LMC	Dominican Republic	LMC	Angola	LMC
Mongolia	LIC	Ecuador	LMC	Benin	LIC
Myanmar	LIC	El Salvador	LMC	Botswana	UMC
Northern Mariana Islands	UMC	Grenada	UMC	Burkina Faso	LIC
Palau	UMC	Guatemala	LMC	Burundi	LIC
Papua New Guinea	LIC	Guyana	LMC	Cameroon	LMC
Philippines	LMC	Haiti	LIC	Cape Verde	LMC
Samoa	LMC	Honduras	LMC	Central African Republic	LIC
Solomon Islands	LIC	Jamaica	LMC	Chad	LIC
Thailand	LMC	Mexico	UMC	Comoros	LIC
Timor-Leste	LIC	Nicaragua	LMC	Congo, Dem. Rep.	LIC
Tonga	LMC	Panama	UMC	Congo, Rep.	LMC
Vanuatu	LMC	Paraguay	LMC	Côte d'Ivoire	LIC
Vietnam	LIC	Peru	LMC	Equatorial Guinea	UMC
				Eritrea	LIC

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Table 2.1 Classification of Economies by Region and Income, 2007 (continued)

Europe and Central Asia		(Latin America and the Caribbean)		Sub-Saharan Africa	
Albania	LMC	St. Kitts and Nevis	UMC	Ethiopia	LIC
Armenia	LMC	St. Lucia	UMC	Gabon	UMC
Azerbaijan	LMC	St. Vincent and the Grenadines	UMC	Gambia, The	LIC
Belarus	LMC	Suriname	LMC	Ghana	LIC
Bosnia and Herzegovina	LMC	Trinidad and Tobago	LMC	Guinea	LIC
Bulgaria	LMC	Uruguay	UMC	Guinea-Bissau	LIC
Croatia	UMC	Venezuela, RB	UMC	Kenya	LIC
Czech Republic	UMC			Lesotho	LMC
Estonia	UMC	Middle East and North Africa		Liberia	LIC
Georgia	LMC	Algeria	LMC	Madagascar	LIC
Hungary	UMC	Djibouti	LMC	Malawi	LIC
Kazakhstan	LMC	Egypt, Arab Rep.	LMC	Mali	LIC
Kyrgyz Republic	LIC	Iran, Islamic Rep.	LMC	Mauritania	LIC
Latvia	UMC	Iraq	LMC	Mauritius	UMC
Lithuania	UMC	Jordan	LMC	Mayotte	UMC
Macedonia, FYR	LMC	Lebanon	UMC	Mozambique	LIC
Moldova	LMC	Libya	UMC	Namibia	LMC
Poland	UMC	Morocco	LMC	Niger	LIC
Romania	UMC	Oman	UMC	Nigeria	LIC
Russian Federation	UMC	Syrian Arab Republic	LMC	Rwanda	LIC
Serbia and Montenegro	LMC	Tunisia	LMC	Sao Tome and Principe	LIC
Slovak Republic	UMC	West Bank and Gaza	LMC	Senegal	LIC
Tajikistan	LIC	Yemen, Rep.	LIC	Seychelles	UMC
Turkey	UMC			Sierra Leone	LIC
Turkmenistan	LMC			Somalia	LIC
Ukraine	LMC			South Africa	UMC
Uzbekistan	LIC			Sudan	LIC
				Swaziland	LMC

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Table 2.1 Classification of Economies by Region and Income, 2007 (continued)

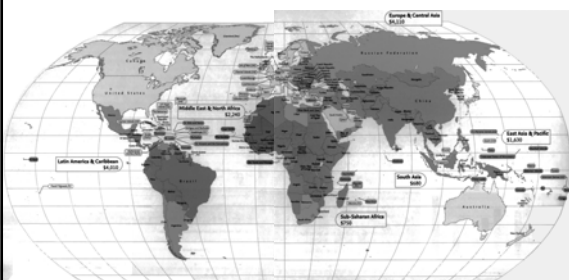
Sub-Saharan Africa		Other High-Income Economies	
Tanzania	LIC	Netherlands	French Polynesia
Togo	LIC	New Zealand	Greenland
Uganda	LIC	Norway	Guam
Zambia	LIC	Portugal	Hong Kong, China
Zimbabwe	LIC	Spain	Isle of Man
		Sweden	Israel
		Switzerland	Kuwait
		United Kingdom	Liechtenstein
		United States	Macao, China
			Malta
			Monaco
			Netherlands Antilles
			New Caledonia
			Puerto Rico
			Qatar
			San Marino
			Saudi Arabia
			Singapore
			Slovenia
			Taiwan, China
			United Arab Emirates
			Virgin Islands (U.S.)

Source: World Bank data.

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Figure 2.1 Nations of the World, Classified by GNI Per Capita



Source: World Bank, Atlas of Global Development Indicators, Washington, D.C., 2011. Used with permission.

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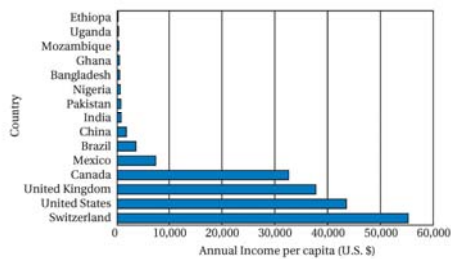
Measuring Development for Quantitative Comparison across Countries

- Gross National Income (GNI)
- Gross Domestic Product (GDP)
- PPP method instead of exchange rates as conversion factors (see figure 2.2)

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Figure 2.2 Income Per Capita in Selected Countries

Source: Data from World Bank, *World Development Indicators*, 2007 (Washington, D.C.: World Bank, 2007), tab. 1.1.

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Table 2.2 A Comparison of Per Capita GNI, 2005

Country	GNI Per Capita (U.S. \$)	
	Exchange Rate	Purchasing Power Parity
Argentina	4,470	13,920
Bangladesh	470	2,090
Brazil	3,550	8,230
Burundi	100	640
Cameroon	1,000	2,150
Chile	5,870	11,470
China	1,740	6,600
Costa Rica	4,700	9,680
Ghana	450	2,370
Guatemala	2,400	4,410
India	730	3,460
Indonesia	1,280	3,720
Kenya	540	1,170
Malawi	160	650
Malaysia	4,970	10,320
Mexico	7,310	10,030
Nicaragua	950	3,650
Sierra Leone	220	780
South Korea	15,840	21,850
Sri Lanka	1,160	4,520
Thailand	2,720	8,440
Uganda	280	1,500
United Kingdom	37,740	32,690
United States	43,560	41,550
Venezuela	4,820	6,440
Zambia	500	950

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Concepts for Review

- Absolute poverty
- Brain drain
- Crude birthrate
- Convergence
- Death rate
- Dependency burden
- Developed world
- Economic Institutions
- Foreign exchange
- Gross domestic product (GDP)
- Gross national product (GNP)
- Human Development Index (HDI)
- Imperfect markets
- Income gap
- Income inequality
- Incomplete information

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Concepts for Review (cont'd)

- Infant mortality rate
- International poverty line
- Labor productivity
- Least developed countries (LLDCs)
- Levels of living
- Low income countries (LICs)
- Malnutrition
- Middle-income countries (MICs)
- Mixed economic systems
- Newly industrialized countries (NICs)
- Physical resources

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Concepts for Review (cont'd)

- Primary industrial sector
- Production function
- Purchasing power equivalent
- Purchasing power parity (PPP)
- Resource endowment
- Secondary industrial sector
- Tertiary industrial sector
- World Bank

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