CHARACTERISTICS OF DEVELOPMENT

Question of Interest:

Why the lives that people are able to construct differ enormously across the globe?

'OR'

Why some of the people ~~of~~ are able to enjoy a high standard of living and most people aren't able to?

→ Objective: To understand the underlying causes behind this vastly different conditions of life.

Role of Economics in exploring this question:

1) To unpack the processes that influence how people's lives come to be what they are.

2) To identify ways to influence those very processes so as to improve the prospects of those who are heavily constrained in what they can be and do.

3. And to a lesser degree, also to make forecasts / predictions of what the economic life are going to be.

→ Managing this task amounts to a tall order, perhaps impossible if we consider the fact that everything probably affects everything else. So, how to make sense of the social world?

→ Modern economist does this by building models, which are deliberately stripped down versions or representations of the phenomena out there. So, economists focus on ~~one~~ one or two causal factors, exclude everything else, hoping that this will enable us to understand how just those aspects of reality work and interact.

• GDP / capita will be the measuring rod to talk of economic success or failure.

Just to give a perspective of how this large regional disparities in income is a very recent phenomena (perhaps, less than 200 years old).

→ Ratio of the average incomes in the US and Africa has risen from 3 at the beginning of the 19th Century to more 20 today.

→ Real GDP/ capita in the US has grown 30 times in size in 200 years. and in Sad contrast, income / capita in Ethiopia is about the same as it was 200 years ago.

* PROXIMATE CAUSES BEHIND DIFFERENCES BETWEEN THE RICH AND THE POOR WORLD.
[or Factors responsible for Economic Growth]

1). Accumulation of Physical Capital:

Better equipment and machines to work with produces higher output.

2) Human Capital:

a) Education → better education
↓
ability to make use of ideas to produce goods that are out of reach for people in countries where large numbers are illiterate.

b) Health → Life Expectancy much higher in rich countries
↓
ability to supply work for many more years.

& Undernutrition affects development of cognitive faculties → rich countries capable of supplying work of far higher quality.

3) Ideas :

Rich countries have become rich because people there have been successful in producing ideas not only for new products, but also cheaper ways of producing old products.

4) Population growth :

ability to set aside more income for production of ideas $\xrightarrow{\text{raises productivity of}}$ Manufactured Capital Goods (↑) → Raises real GDP → More investment in Education & health → raises GDP further → ability to set aside more income for production of ideas

$\xrightarrow{\text{opposite}}$ Vicious Cycle of Poverty (Poverty Traps).

① Virtuous Cycle of Growth.

6

- Discovering the Relative importance of the various factors responsible for Economic Growth.

Suppose,

$G =$ GDP growth rate.

$X =$ Contribution of Physical Capital to GDP growth ~~rate~~

$Y =$ Human Capital Contribution to GDP growth.

$Z =$ idea contribution to GDP growth.

If the sum of X, Y & Z falls short of real GDP growth (or ~~in~~ 'G' in this case), we are entitled to interpret that shortfall as an increase in the overall productivity of the economy, it's a way of acknowledging that there has been a general rise with which goods are produced and economists referred that as rise growth in total factor productivity.

Scanned with CamScanner