Poverty, the state and development

Pearson Edexcel · International A-Level · Economics

Pearson Edexcel International A Level Economics (WEC14), specification Issue 2, June 2018. This topic covers spec sections 4.3.4–4.3.6 in full: poverty and inequality (two rows); the role of the state in the macroeconomy – public expenditure, taxation, borrowing and macroeconomic policy (four rows); and growth and development measures, constraints and strategies (four rows). All worked numbers are original and re-derived below.

Must-know for this topic:

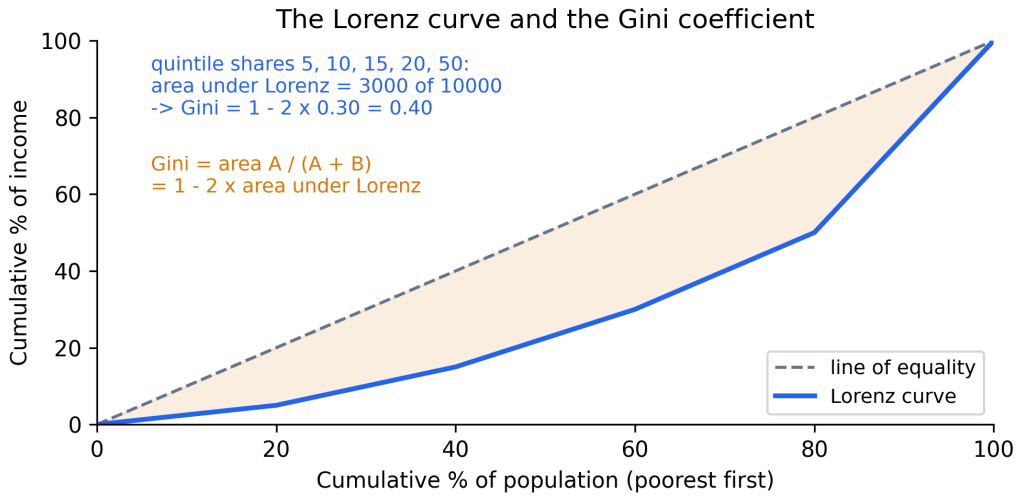
Family	Relationship
Gini	$\text{Gini} = 1 - 2 \times \frac{\text{area under the Lorenz curve}}{\text{whole square}}$; quintile shares 5/10/15/20/50 $\rightarrow$ 0.40
Laffer	revenue $= t(1-t) \times 400$; maximum 100 at $t = 50\%$
HDI	geometric mean of education, health and income indices
deficits	fiscal deficit (a flow) vs national debt (a stock); structural vs cyclical

Poverty

Absolute poverty is inability to meet basic needs. The World Bank's international extreme-poverty line was updated in June 2025 to 3.00 international dollars per person per day, measured at 2021 purchasing-power parity. State the line, PPP basis and reference date when comparing estimates. **Relative poverty** is deprivation against the society's norm, often measured using a stated share of median household income (4.3.4.1a–b). Reference: World Bank poverty-line update. Causes of changes in both (4.3.4.1c): economic growth (can reduce absolute poverty, depending on its distribution), education and training, welfare benefits, tax-structure changes, structural change (industrial decline deepens relative poverty in left-behind regions), aid, and civil wars and conflict.

Inequality

Wealth inequality concerns the stock of assets; **income inequality** the flow of earnings (4.3.4.2a). Measurement (4.3.4.2b): the **Lorenz curve** plots cumulative income against cumulative population from the poorest up; the **Gini coefficient** is the area between the equality line and the Lorenz curve divided by the whole triangle beneath the equality line – equivalently $1 - 2\times$ (area under the Lorenz as a share of the square). Original example: quintile shares 5, 10, 15, 20 and 50 percent give a Lorenz curve over (0,0), (20,5), (40,15), (60,30), (80,50), (100,100); the area under it is $50 + 200 + 450 + 800 + 1500 = 3000$ of the 10000 square, so $\text{Gini} = 1 - 2 \times 0.30 = 0.40$ – a fairly unequal distribution. Causes of inequality (4.3.4.2c): within countries – wages and skills, wealth-holding, inheritance, globalisation's skill premium; between countries – growth histories, institutions and geography. Its impacts (4.3.4.2d): enterprise and incentives may suffer at the extremes; savings concentration; unequal education; migration incentives; life expectancy gaps. Development and economic change first WIDEN inequality (industrialisation) then can narrow it (4.3.4.2e); free-market capitalism generates inequality by rewarding scarce skills and capital – the price of its incentives (4.3.4.2f).



Original data: quintile shares 5, 10, 15, 20, 50 give a Gini of 0.40.

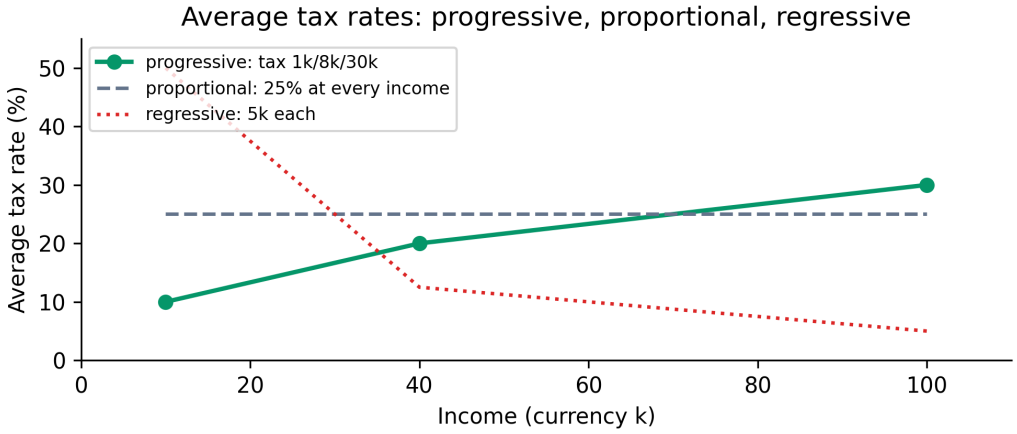
Public expenditure, taxation and borrowing

Public expenditure divides into CAPITAL expenditure (assets), CURRENT expenditure (running costs) and TRANSFER PAYMENTS (benefits, no output received) (4.3.5.1a); its size and pattern change with incomes, age distributions and expectations in an international context (4.3.5.1b); its GDP share matters for productivity and growth, CROWDING OUT, and the tax level (4.3.5.1c).

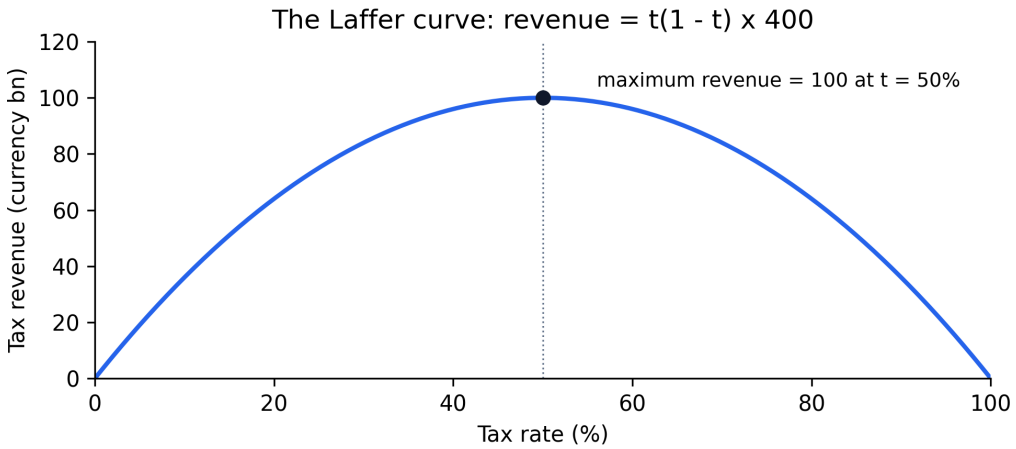
Taxes (4.3.5.2a–b): DIRECT on income and wealth (income tax, corporation tax) versus INDIRECT on spending (VAT, excise); PROGRESSIVE (average rate rises with income), PROPORTIONAL (flat), REGRESSIVE (average rate falls). Original example: taxes of 1k, 8k and 30k on incomes of 10k, 40k and 100k are progressive (average rates 10, 20, 30 percent); a flat 25 percent is proportional; a 5k charge on everyone is sharply regressive (50 against 5 percent). The effects of tax changes (4.3.5.2c) run through work incentives, revenue (the **Laffer curve**: revenue $= t(1-t) \times 400$ peaks at 100 when $t = 50\%$ – beyond it, avoidance and shrinking activity cut revenue), income distribution, output and employment, the price level, the trade balance and FDI.

Public borrowing (4.3.5.3a): a **fiscal deficit** is one year's shortfall; the **na-**

tional debt is the accumulated stock. AUTOMATIC STABILISERS move the budget with the cycle without policy change; DISCRETIONARY policy is a chosen change. A STRUCTURAL deficit persists at full employment; a CYCLICAL deficit exists only because output is below trend. Deficit and debt sizes (4.3.5.3b) follow the cycle, recessions, banking rescues and demography; their significance (4.3.5.3c): interest rates and crowding out, DEBT SERVICING costs, and INTERGENERATIONAL EQUITY – today's borrowing is tomorrow's taxpayers' bill.



Original data: average rates under progressive, proportional and regressive schedules.



Original model: revenue t(1−t) × 400 peaks at 100 when the rate is 50 percent.

Macroeconomic policies and the state

Governments combine FISCAL policy, MONETARY policy, EXCHANGE-RATE policy, SUPPLY-SIDE policies and DIRECT CONTROLS to reduce deficits and debt, control inflation, respond to external shocks and cut poverty and inequality (4.3.5.4a) – the 2008 global financial crisis saw worldwide reflationary demand-side responses: bank rescues, near-zero interest rates and quantitative easing (4.3.5.4b). TNCs are controlled by anti-avoidance rules and TRANSFER-PRICING regulation – with limits: footloose firms relocate (4.3.5.4c). Policy changes ripple across local, national and global economies (4.3.5.4d); policymakers face inaccurate information, risks and uncertainties, and uncontrollable external shocks (4.3.5.4e).

Growth and development

Development is broader than growth. The **Human Development Index** (HDI, 4.3.6.1a) combines three components, each measured as an index between 0 and 1: EDUCATION (mean and expected years of schooling), HEALTH (life expectancy at birth) and INCOME (GNI per capita, PPP, log-scaled), combined by geometric mean. Advantages: broader than GDP, comparable, capped; limitations: hides distribution, omits freedom, environment and gender gaps (4.3.6.1b). Other measures (4.3.6.1c): the share of adult male labour in agriculture, clean-water access, energy per capita, internet, mobile-phone and doctor access per thousand.

Constraints (4.3.6.2): ECONOMIC – commodity-price volatility, **primary product dependency** (the Prebisch–Singer hypothesis: primary prices trend down against manufactures), the **savings gap** (the Harrod–Domar model: growth needs the savings ratio ÷ the capital–output ratio, and poor economies save too little), the foreign-currency gap, capital flight, demography, debt, credit access, infrastructure, education and skills (4.3.6.2a); NON-ECONOMIC – corruption, poor governance, civil wars, migration, terrorism (4.3.6.2b).

Strategies (4.3.6.3): MARKET-ORIENTATED – trade liberalisation, FDI promotion, subsidy removal, privatisation, floating exchange rates, microfinance (4.3.6.3a); INTERVENTIONIST – human capital, protectionism, managed rates, infrastructure, joint ventures with TNCs, buffer stocks (4.3.6.3b); OTHER – industrialisation (the **Lewis dual-sector model** : surplus agricultural labour transfers to industry at low wages, funding accumulation), tourism, primary-industry development, debt relief, aid (4.3.6.3c). International institutions (4.3.6.3d): the WORLD BANK (concessional project loans), the IMF (crisis lending and conditionality) and NGOs (grass-roots delivery).

Checklist

- Absolute versus relative poverty with measures; the seven causes of change (4.3.4.1).
- Wealth versus income inequality; the Lorenz curve and Gini with the 0.40 calculation; causes, six impacts, development's effect, capitalism's significance (4.3.4.2).
- Capital/current/transfer expenditure; three drivers of its size; productivity, crowding out, taxation (4.3.5.1).
- Direct vs indirect; progressive/proportional/regressive with the 10-20-30 example; the seven effect channels incl. the Laffer peak of 100 at 50% (4.3.5.2).
- Deficit vs debt; stabilisers vs discretionary; structural vs cyclical; size factors; interest, servicing, intergenerational equity (4.3.5.3).
- The five policy families with four aims; 2008 demand-side responses; TNC control and its limits; local-national-global impacts; three policymaker problems (4.3.5.4).
- HDI's three components and measurement; advantages and limitations; six other development measures (4.3.6.1).
- The eleven economic and five non-economic constraints, incl. Prebisch–Singer, Harrod–Domar and capital flight (4.3.6.2).
- Market-orientated, interventionist and other strategies incl. the Lewis model; World Bank, IMF, NGOs (4.3.6.3).

Boundary notes: WEC14 Section C essays offer 20-mark evaluative questions – knowledge/application/analysis 12 plus evaluation 8, with level caps for missing diagrams or named contexts. Calculation marks reward the index and Gini arithmetic shown above. All worked numbers are original and internally consistent.