Exercise walk-through

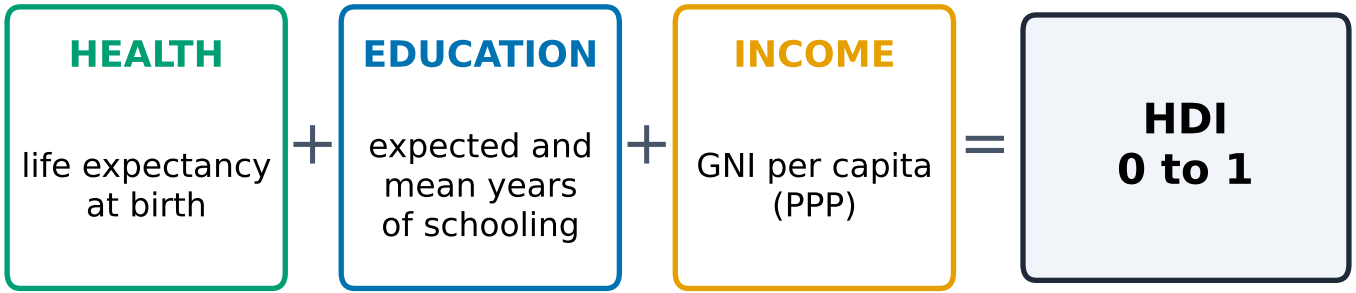
6.6
Sustainable development and measuring development

International Baccalaureate · IB Diploma · Economics · HL

Economic development

- The **poverty trap** : people with low incomes cannot save, so there is little money for investment, so productivity and incomes stay low.
- **Economic barriers**: high inequality; poor infrastructure (roads, power, internet); little access to credit and markets; a large informal economy that pays no taxes; **capital flight** (rich people moving money abroad); and unsustainable foreign debt.
- **Dependence on primary products**: for example, copper makes up most of Zambia's exports, so a fall in the world copper price cuts national income sharply.

Figure: Economic development



GDP alone misses health and schooling; the GII adds gender inequality

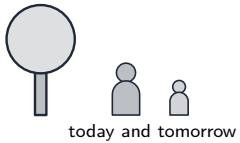
- The **Human Development Index** combines health, education and income
- Match each part of the diagram to the text.

Key terms (2)

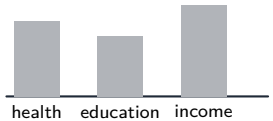
- **Exchange rate**: the price of one currency in terms of another.
- **Current account**: the record of a country's trade in goods and services, **primary income** and **secondary income**.
- **Terms of trade**: the average price of a country's exports relative to the average price of its imports, as an index.
- **Human Development Index**: a composite measure of development based on health, education and income.

Exercises 2.1·2.2

2.1 Define **sustainable development**. [2]

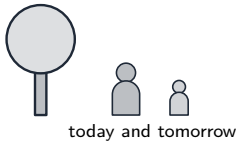


2.2 State the **three** dimensions measured by the Human Development Index. [2]



Exercises 2.1·2.2

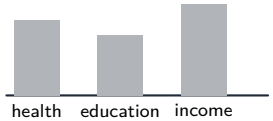
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2.1

development that meets the needs of the present generation; without reducing the ability of future generations to meet their own needs

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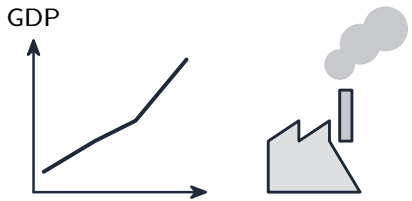


2.2

health (life expectancy), education (years of schooling), standard of living (GNI per capita, PPP): all three; any two

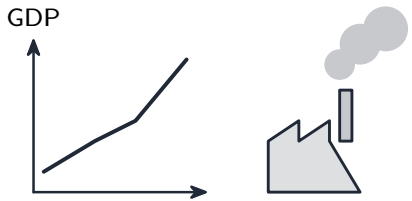
Exercise 2.3

2.3 Explain **two** limitations of GDP per capita as a measure of development. [4]



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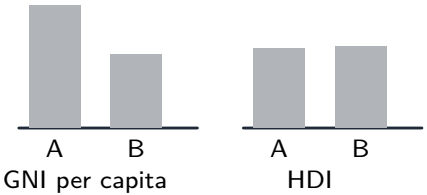


2.3

any two, explained: it is an average, so it hides how income is distributed; it ignores health, education and freedom; it leaves out unpaid and informal work; it counts output that harms the environment but not the loss of natural resources; without PPP, it ignores differences in prices

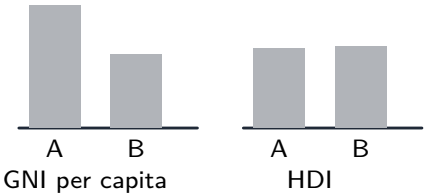
Exercise 2.4

2.4 Country A has GNI per capita (PPP) of \$30,000 and an HDI of 0.78. Country B has GNI per capita of \$18,000 and an HDI of 0.80. Explain **one** reason for this difference. [3]



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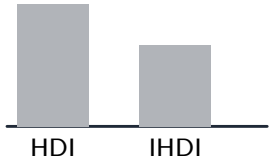


2.4

B has turned lower income into better health and education outcomes; e.g. more public spending on schools and health care / better access for all; A's income may be unequally shared, or depend on oil revenue that does not reach most people

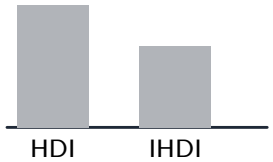
Exercise 2.5

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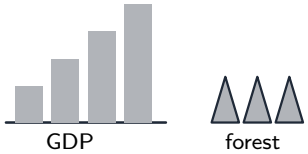
2.5

the HDI uses national averages; the IHDI reduces each dimension by how unequally it is shared across people; so a country with large gaps in income, health or education between groups has an IHDI much lower than its HDI

Exercise 3.1

3.1 A country's GDP per capita has grown fast for 20 years, but forests have been cut down and rivers polluted.

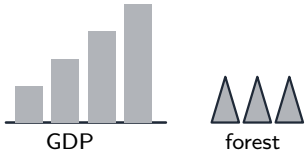
Evaluate the view that economic growth always leads to sustainable development. [10]



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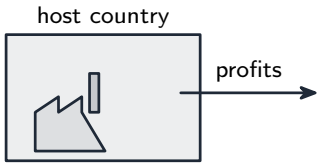
3.1

award up to [10]: growth raises incomes and tax revenue; revenue can pay for schools, clinics, clean water and infrastructure; growth can reduce absolute poverty; but growth may not reach the poor if inequality is high; environmental damage: deforestation, pollution and climate change reduce what future generations can use; the poor are often hit hardest by environmental damage; development needs policies such as green investment, regulation and spending on health and education; judgement: growth can support but does not guarantee sustainable development

Exercise 3.2

3.2 A small economy has GDP of \$50 bn and GNI of \$42 bn. Most of its mines and factories are foreign-owned.

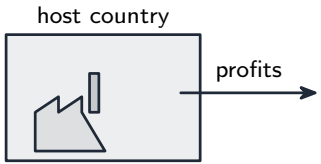
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3.2

GNI = GDP + net income from abroad, so net income from abroad is −\$8 bn; foreign owners send profits home, which count in GDP but not in GNI; GNI shows the income residents actually receive; so GNI is usually a better guide to residents' living standards; but both are averages that ignore distribution and the environment; judgement: use GNI per capita (PPP) together with composite measures such as the HDI