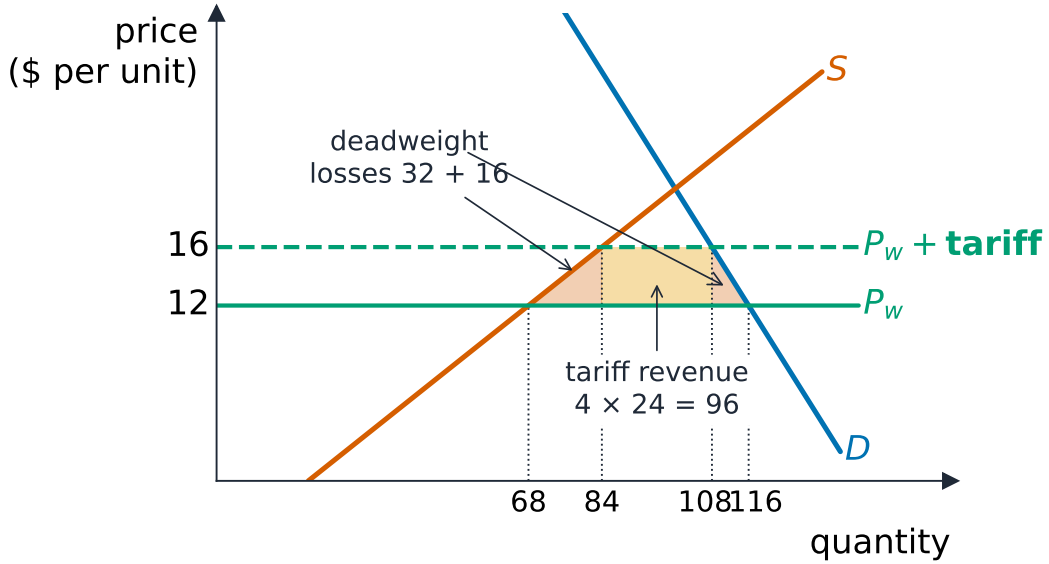
Exercise walk-through

6.7
Barriers to and strategies for growth and development

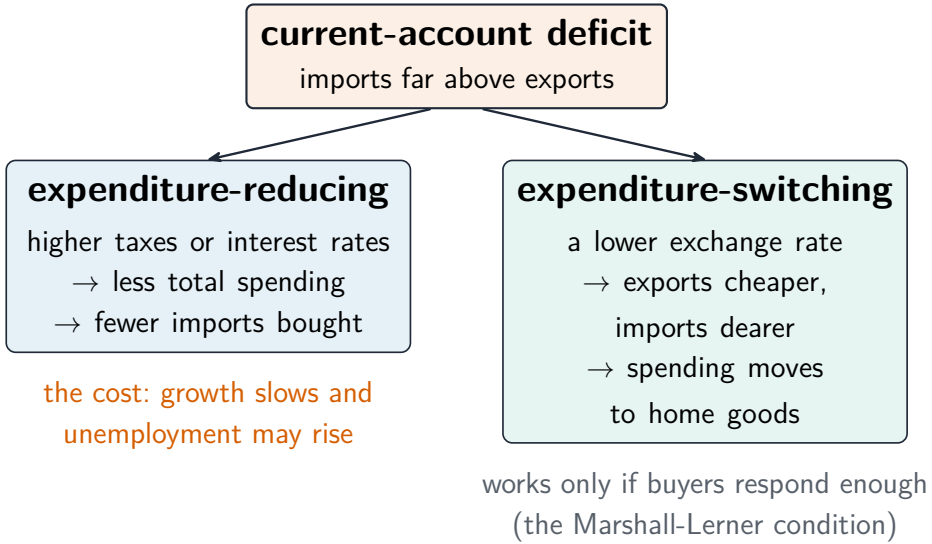
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Figure: Trade protection



- A **tariff** of 4 halves imports, raises 96 for the government and wastes 48
- Match each part of the diagram to the text.

Figure: The balance of payments



- Two routes out of a deficit: spend less overall, or switch spending to home goods
- Match each part of the diagram to the text.

Economic development

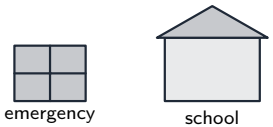
- The **poverty trap** : people with low incomes cannot save, so there is little money for investment, so productivity and incomes stay low.
- **Economic barriers**: high inequality; poor infrastructure (roads, power, internet); little access to credit and markets; a large informal economy that pays 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.

Exercises 2.1·2.2

2.1 Define **microcredit**. [2]



2.2 Distinguish between humanitarian aid and development aid. [2]



Exercises 2.1·2.2

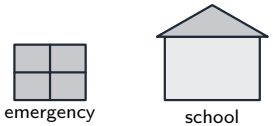
2.1 Define **microcredit**. [2]



2.1

small loans; given to poor people, often without collateral, to start or grow a small business

2.2 Distinguish between humanitarian aid and development aid. [2]

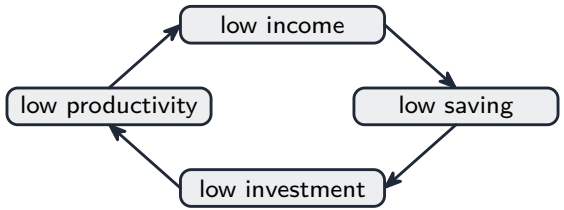


2.2

humanitarian aid: short-term help in emergencies, such as food, shelter and medical care; development aid: long-term help, such as grants and loans for schools, health and infrastructure, to raise living standards

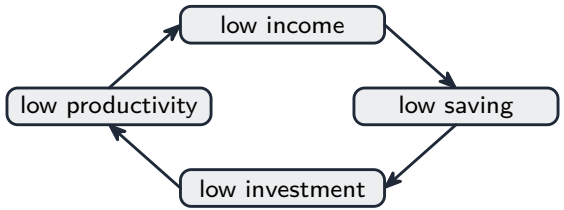
Exercise 2.3

2.3 Explain how the poverty cycle can stop a country from developing. [4]



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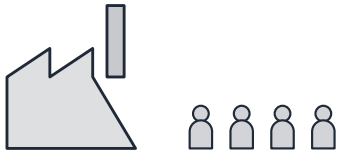


2.3

low incomes mean households can save little; low saving means little money for investment in capital and skills; low investment keeps productivity low; so incomes stay low and the cycle repeats

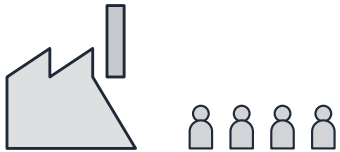
Exercise 2.4

2.4 Explain **one** benefit and **one** cost for a low-income country of a foreign-owned factory. [3]



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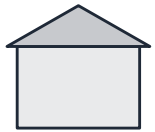


2.4

benefit: jobs, wages, tax revenue, new technology or skills; cost: profits sent abroad / poor working conditions / pollution / tax breaks reduce government revenue; each explained in context

Exercise 2.5

2.5 Explain **one** argument for and **one** argument against an interventionist approach to development. [3]



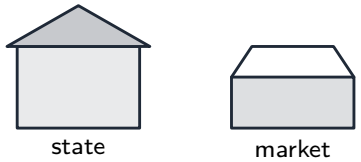
state



market

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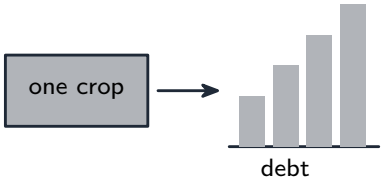
2.5

for: markets under-provide merit and public goods, so the state can invest in education, health and infrastructure; against: government failure: corruption, poor information and inefficiency waste resources; clear development of both points

Exercise 3.1

3.1 A low-income country depends on exports of one crop and owes large foreign debts.

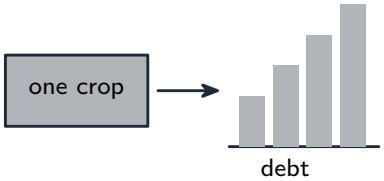
Evaluate **two** strategies the country could use to promote growth and development. [10]



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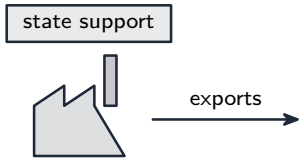
3.1

award up to [10]: any two strategies, explained and evaluated, e.g.: diversification: new exports reduce dependence on one volatile price; but needs skills, infrastructure and investment; debt relief: frees revenue for health and education; but may need conditions and good governance to work; FDI: capital, jobs, technology; but profits leave the country; aid, microcredit or education also credited; judgement on which works best for this country

Exercise 3.2

3.2 Some economists argue that the East Asian economies grew fast through a mix of export promotion and strong state support for industry.

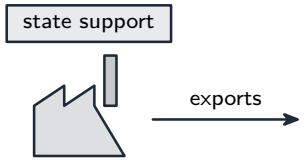
Discuss whether developing countries should follow a market-led or an interventionist strategy. [6]



Exercise 3.2

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3.2

market-led: openness to trade and FDI brings competition, technology and access to large markets; but can widen inequality and leave infant industries unprotected; interventionist: the state can build infrastructure, education and target key industries; but risks corruption and inefficient protected firms; evidence: successful economies combined export promotion with state investment in skills and infrastructure; judgement: the right mix depends on the quality of the country's institutions