

Chapter 23 Development

Answers to Knowledge checks

- 23.1** Investment banking is classified as part of the tertiary sector.
- 23.2** With inelastic demand, the variation in price is relatively large. You could sketch a diagram to check this. Notice that the demand for agricultural goods (especially food) tends to be inelastic.
- 23.3** Official exchange rates may reflect government policy, especially where exchange rates are tied to another country's currency, such as the US dollar. If exchange rates are freely floating, they will reflect the relative prices of internationally traded goods, and goods that are not traded internationally will not be picked up.
- 23.4** Perhaps the most important are health and education, but the standard of living is also affected by the environment in which people live, which covers many things such as clean air, traffic congestion, the stress of everyday living, etc.
- 23.5** The large difference between mean and expected years of schooling indicates that there have been significant improvements in educational provision, as children entering school now can expect many more years of schooling than previous generations received. This bodes well for the future.
- 23.6** Ethiopia performed better on health (life expectancy) than on knowledge (mean years of schooling). It is therefore promising that expected years of schooling have improved (*see* Knowledge check 23.5).
- 23.7** The other indicator that contributes to the Human Development Index (HDI) is GNI per capita, so the lower value for the HDI must have reflected lower GNI per capita for women. In fact, female GNI per capita was only about 53% of the male level.

Answers to Exercises and Case studies

Exercise 23.1

A first point to notice in the table is that both countries have similar levels of GNI per capita, although Country A's is marginally higher. However, on all of the other indicators, Country B performs significantly better, especially in relation to the poverty headcount, but also in adult literacy, life expectancy and infant mortality.

This very clearly indicates the danger of relying only on GNI per capita as an indicator of relative living standards in the two countries.

In part, these differences may reflect differing emphasis given to policy objectives in the two countries. It could be, for example, that country B has devoted more of its resources to health and education, rather than to achieving economic growth. Or it may be that the HIV/AIDS epidemic has had a devastating impact on the standard of living in Country A. We cannot really tell from these data alone.

If you were exploring these countries in more depth, it would also be helpful to have some idea of how incomes are generated, by finding out about the balance of different economic activities in the two economies. Furthermore, you would want to find out why poverty is so prevalent in Country A, given its GNI per capita level.

Exercise 23.2

I don't know which country you chose to look at, but I chose to look at South Africa. The data show that GNI per capita is out of line with other indicators, especially health-related measures.

Exercise 23.3

Picking the country with the highest GNI per capita looks fairly straightforward, as Country C shows lower life expectancy, low flows of foreign direct investment, high levels of unemployment, HIV/AIDS and infant mortality. The other two countries are perhaps more closely aligned on the indicators shown, and you may have found it more difficult to choose which would have the lowest GNI per capita. However, did you get things right? A point made in the textbook is that there is considerable diversity among countries in terms of the configuration of characteristics they display. It was also emphasised that GNI per capita does not always provide a true picture of the relative living standards across countries. In the table, Country A is Madagascar with the lowest GNI per capita at PPP\$1,440. Country B (Kenya) had more than double Madagascar's GNI per capita, at PPP\$3,130. Country C (Swaziland) has by far the highest GNI per capita, at PPP\$7,980, showing how misleading the GNI per capita level can be. Clues that might have given Country C away are the relatively low dependence on agriculture, and the very high prevalence of HIV/AIDS, which has a knock-on effect on other indicators.

Case study 23.1

Wildlife tourism

- a** A danger with introducing tourism into an area is that the construction of roads and other infrastructure may cause damage to wildlife habitats, and the intrusion of tourists may interfere with the lives of the animals that they come to see. The more tourists that visit, the greater this danger may become. Interfering with local ecosystems may even cause the demise of some species of fauna or flora, therefore affecting biodiversity.
- b** Visiting tourists are likely to bring their own lifestyles and consumption habits, which could mean that local people see them as (inappropriate) role models. Tensions could arise because of the income differences between the visitors and the local population. The promotion of tourism also carries an opportunity cost, in that funds used to provide infrastructure could have been used for other development projects.
- c** Local communities may benefit in many ways from tourist activity. They can take advantage of improvements to roads and other aspects of the infrastructure. The tourists may provide a market for goods and services provided by people in the local community, and there may be multiplier effects that flow from this.
- d** It is tempting to think that less developed countries (LDCs) that are heavily reliant on agriculture or other primary goods need to industrialise in order to achieve economic growth and human development. However, there are potential benefits from developing service sector activities that have the potential for earning foreign exchange, which can contribute to the growth process.

Answers to end-of-chapter questions

A Multiple-choice questions

- 1** a. Primary
- 2** a. GDP per capita

B Knowledge and understanding questions

- 3** Sustainable development is about meeting the needs of the present generation without compromising the ability of future generations to meet their needs.

A full explanation of sustainable development	2 marks
A vague or partial explanation of sustainable development	1 mark

4 Reasons may include:

- Exchange rate issues
- The informal sector
- Accuracy of data
- Income distribution
- Does not include social indicators
- Does not take into account differences in population size between countries

Two reasons explained	4 marks
One reason explained AND one reason identified	3 marks
One reason explained OR two reasons identified	2 marks
One reason identified	1 mark

5 Long-run economic growth is the expansion of the productive capacity of an economy.

Short-run economic growth is an increase in actual GDP.

Sustainable development is about meeting the needs of the present generation without compromising the ability of future generations to meet their needs.

A full explanation of the relationship between economic growth and sustainable development	3 marks
Understanding of economic growth AND sustainable development	2 marks
Understanding of economic growth OR sustainable development	1 mark

D Essay question**6**

AO1 Knowledge	6 marks
AO2 Application	6 marks
AO3 Analysis	6 marks
AO4 Evaluation	7 marks

Knowledge (6 marks) likely to include:

- Development
- Components of the human development index (HDI), for example:
 - Life expectancy
 - Education index
 - GNI per capita/standard of living

Application (6 marks) is likely to include:

- Application of the HDI as a measure of development

Analysis (6 marks) is likely to include:

Analysis of the usefulness of the HDI, for example:

- Impact of life expectancy on development
- Impact of education on development

- Impact of GNI per capita/standard of living on development

Evaluation (7 marks) is likely to include:

- Evaluation of why the components of the HDI are not a useful measure of development
- Evaluation of other, more useful measures of development

A judgement of the usefulness of the HDI as a measure of development