

 **HL IB Economics**

## 4.10 Economic Growth & Development Strategies

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## 4.10.1 Trade Strategies, Diversification & Social Enterprise



Your notes

### Trade Strategies

- Increasing international trade helps to increase economic growth and development
- Four of the most commonly used strategies to increase international trade include **import substitution, export promotion, economic integration and diversification**

#### Strategies to Increase International Trade

Strategy	Explanation	Advantages	Disadvantages
<b>Import substitution</b>	<ul style="list-style-type: none"> <li>Aims to <b>increase domestic production</b> and output by moving consumers away from imports <b>by using tariffs or quotas</b> to increase import prices. This encourages them to buy locally</li> </ul>	<ul style="list-style-type: none"> <li>Less dependence on imports</li> <li>May increase employment in the country</li> <li>Supports <b>local firms</b></li> </ul>	<ul style="list-style-type: none"> <li>Higher prices and <b>less choice</b> for consumers</li> <li>Possibility of <b>retaliation</b> from other countries</li> <li>Distorts the efficient <b>allocation of resources</b> as more inefficient domestic firms increase production</li> <li>May <b>raises costs</b> for manufacturers who depend on imported components</li> </ul>
<b>Export promotion</b>	<ul style="list-style-type: none"> <li>Aims to increase the level of exports through <b>subsidies</b> or facilitating international trade fairs at which local firms can connect with <b>international buyers</b></li> </ul>	<ul style="list-style-type: none"> <li>Greater output generates higher <b>economies of scale</b></li> <li>Greater output creates more employment</li> </ul>	<ul style="list-style-type: none"> <li>Some firms may be unable to compete internationally and fail</li> <li>There is an <b>opportunity cost</b> to the government for supporting firms</li> </ul>



Your notes

		<ul style="list-style-type: none"> <li>▪ National <b>specialisation</b> increases</li> <li>▪ <b>International competition</b> leads to innovation and increased efficiency</li> </ul>	through export promotion
<b>Economic integration</b>	<ul style="list-style-type: none"> <li>▪ A process in which countries become <b>more interdependent</b> as they form an agreement which <b>decreases barriers to trade</b> (tariffs, quotas etc.) and increasing common fiscal and/or monetary policies</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Decreases prices</b> and increases choice</li> <li>▪ Access to a wider range of technology</li> <li>▪ More political cooperation between countries</li> <li>▪ <b>Expands markets</b> for domestic firms</li> <li>▪ Generates <b>higher efficiency</b> in the global allocation of resources</li> </ul>	<ul style="list-style-type: none"> <li>▪ Some loss of national <b>sovereignty</b> may occur</li> <li>▪ Some integration requires <b>common barriers</b> (e.g. tariffs) to be erected to third part nations which may limit other opportunities for increasing trade</li> </ul>



Your notes

<p><b>Increasing diversification</b></p>	<ul style="list-style-type: none"> <li>Occurs when a country is able to increase the number of products that it offers for export and this <b>reduces risk</b> - if one product fails others may well still be successful</li> </ul>	<ul style="list-style-type: none"> <li>Reduces the problems associated with <b>over specialisation</b> such as price volatility (e.g. in 2019, 71% of Zambia's exports were copper and it's GDP is significantly influenced by the price of copper)</li> <li>Creates <b>new employment opportunities</b></li> <li>Reduces risk of failure during recessions or periods of economic slowdown</li> </ul>	<ul style="list-style-type: none"> <li>Firms may fail to compete as <b>global competitors</b> may be well established</li> <li>It takes <b>time and money</b> to create new industries</li> </ul>
<p><b>Social Enterprise</b></p>	<ul style="list-style-type: none"> <li>A social enterprise focuses on meeting specific social objectives such as worker welfare, or profit sharing with workers, or <b>providing equal ownership</b> of the business to employees e.g Bouwland Wines in Stellenbosch, South Africa gave equal ownership shares to its 60 employees</li> </ul>	<ul style="list-style-type: none"> <li>Raises <b>motivation</b>, productivity and output</li> <li>Can create new <b>employment opportunities</b></li> <li>Raises <b>income</b> within the communities</li> </ul>	<ul style="list-style-type: none"> <li>These ventures tend to be small and very <b>localised</b></li> <li>It can be difficult for them to generate economies of scale or to compete internationally</li> </ul>



Your notes

## 4.10.2 Market-Based & Interventionist Policies

### Market-Based Policies

- **Market-based strategies** create the conditions for private individuals & firms to pursue an economic activity with the aim of **maximising output and profit**

#### Market-based Strategies to Generate Economic Growth & Development

Strategy	Explanation	Advantages	Disadvantages
<b>Trade liberalisation</b>	<ul style="list-style-type: none"> <li>▪ Removing the barriers to international trade such as tariffs, quotas etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ More trade increases output, employment &amp; incomes</li> <li>▪ Lowers <b>costs of production</b> for firms</li> <li>▪ May result in lower prices for consumers</li> <li>▪ More efficient global allocation of resources</li> </ul>	<ul style="list-style-type: none"> <li>▪ Global competition intensifies and some firms may fail</li> <li>▪ There may be an element of <b>structural unemployment</b> as inefficient industries die out</li> </ul>
<b>Privatisation</b>	<ul style="list-style-type: none"> <li>▪ Government firms are usually so big that private enterprise refrains from trying to compete with them.</li> <li>▪ <b>Privatisation</b> encourages new firms to enter the market &amp; compete, thus increasing the <b>total supply</b> in the economy</li> </ul>	<ul style="list-style-type: none"> <li>▪ May increase <b>competition</b> leading to an increase in output, employment &amp; incomes</li> <li>▪ Private firms may be <b>more efficient</b> than government firms</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government assets are often sold off cheaply at prices below <b>fair market value</b></li> <li>▪ The quality of services may deteriorate as private firms focus on profit maximisation</li> </ul>



Your notes

		<ul style="list-style-type: none"> <li>▪ Competition may result in <b>cheaper prices</b> for consumers</li> <li>▪ The money from the sale of assets can be used to provide more <b>merit and public goods</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Unemployment</b> may increase as private firms seek to cut their wages in order to maximise profits</li> <li>▪ Prices may actually <b>rise</b> as firms provide a <b>monopoly service</b> e.g. rail travel</li> </ul>
<b>Deregulation</b>	<ul style="list-style-type: none"> <li>▪ This is the process of removing <b>government controls/laws</b> from markets in order to increase competition</li> </ul>	<ul style="list-style-type: none"> <li>▪ Any regulation increases costs of production for firms and <b>deregulation decreases costs</b> which may result in greater supply</li> <li>▪ Less regulation may result in <b>innovation and more enterprise</b> in an economy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Deregulation may create an environment of <b>corruption</b> leading to inefficiency</li> <li>▪ Deregulation may increase the quantity of <b>negative externalities</b></li> <li>▪ Deregulation may allow foreign firms to monopolise industry within the nation, leading to <b>higher prices and less output</b></li> </ul>

## Interventionist Policies

- **Interventionist strategies** are put in place by governments to correct the **failings** of the free market and promote the **welfare/development** of its citizens
- Interventionist strategies aim to increase human capital, productivity and output

### Interventionist Strategies to Generate Economic Growth & Development

Strategy	Explanation	Advantages	Disadvantages
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Your notes

<p><b>Tax policies</b></p>	<ul style="list-style-type: none"> <li>A <b>progressive tax system</b> redistributes from those with higher income to those with lower income &amp; reduces <b>income inequality</b></li> </ul>	<ul style="list-style-type: none"> <li>Redistribution often starts with the provision of <b>free education &amp; healthcare</b> paid for from tax revenue</li> <li>Tax revenue provides the means of supporting <b>poorer households</b> and the unemployed</li> </ul>	<ul style="list-style-type: none"> <li>Sometimes, the benefits of a good progressive tax system are eradicated by the penalties imposed through multiple <b>regressive</b> (indirect) taxes</li> <li>If the tax burden is too high it may become a <b>disincentive</b> to work</li> </ul>
<p><b>Transfer payments</b></p>	<ul style="list-style-type: none"> <li><b>Transfer payments</b> are usually given to the <b>poorest &amp; most vulnerable</b> people in society and include <b>unemployment &amp; disability payments</b>, pension payments, heating discounts, public transport subsidies etc.</li> </ul>	<ul style="list-style-type: none"> <li>The poorest households are supported</li> <li>Money received from transfer payments generates <b>consumption</b> in the economy and increases aggregate demand</li> </ul>	<ul style="list-style-type: none"> <li>Poorer countries have less money available to support the poor</li> <li>There is an <b>opportunity cost</b> for the government associated with each transfer payment</li> <li>Supporting the poor makes <b>good economic sense</b> but is sometimes politically unpopular</li> </ul>

<b>Minimum wages</b>	<ul style="list-style-type: none"><li>▪ <b>Minimum wages</b> are set above the free market rate and firms are not allowed to pay anyone less than the <b>legal rate</b></li></ul>	<ul style="list-style-type: none"><li>▪ Workers receive higher wages and have more <b>disposable income</b></li><li>▪ Consumption increases leading to increased aggregate demand</li><li>▪ <b>Standard of living</b> increases with higher income</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Costs of production</b> for firms increase, possibly leading to less international competitiveness</li><li>▪ With higher costs of production, output may fall leading to <b>increased unemployment</b></li></ul>
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Your notes





Your notes

## 4.10.3 Merit Goods & Inward Foreign Direct Investment

### Provision of Merit Goods

- Merit goods are **beneficial to society** but are **under-provided** in a market
- Governments often have to **subsidise** these goods in order to lower the price and/or increase the provision
- The provision of merit goods can result in significant improvements to human development and quality of life

#### The Provision of Merit Goods to Aid Economic Growth & Development

Strategy	Explanation	Advantages	Disadvantages
<b>Education programs</b>	<ul style="list-style-type: none"> <li>▪ These include pre-school, primary, secondary and tertiary education programs which are <b>free at the point of consumption</b>, but paid for with tax revenue</li> </ul>	<ul style="list-style-type: none"> <li>▪ Education helps to intervene and break the <b>poverty trap</b> by increasing human capital</li> <li>▪ Increased human capital results in higher productivity and output</li> <li>▪ Higher output can lead to <b>higher wages</b> which improve the standard of living</li> <li>▪ Higher wages may lead to more <b>consumption</b> and an increase in aggregate demand</li> </ul>	<ul style="list-style-type: none"> <li>▪ Education programs take a <b>long time</b> before there is an increase in productivity</li> <li>▪ There is an <b>opportunity cost</b> associated with the provision of education</li> <li>▪ Education may still be <b>under consumed in developing nations</b> as children are required to work for the family: family survival depends on the income they generate</li> </ul>
<b>Health programs</b>	<ul style="list-style-type: none"> <li>▪ These range from emergency-only healthcare to full</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Universal access to vaccinations</b> can improve life</li> </ul>	<ul style="list-style-type: none"> <li>▪ Each health care intervention by the <b>government</b></li> </ul>



Your notes

	healthcare and preventative healthcare (e.g. cancer screening) programs, which are <b>free at the point of consumption</b> , but paid for with tax revenue	<p>expectancy and productivity significantly</p> <ul style="list-style-type: none"> <li>Improved health care helps to break the <b>poverty trap</b></li> </ul>	<p><b>requires expenditure</b> and so carries an <b>opportunity cost</b></p> <ul style="list-style-type: none"> <li>How much health care should be provided is a normative issue and is subject to <b>political pressure and ideology</b></li> </ul>
<b>Infrastructure projects</b>	<ul style="list-style-type: none"> <li><b>Infrastructure</b> - including energy, transport, telecommunications, clean water and sanitation -</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure can play a direct role in improving the <b>health and standard of living</b></li> <li>Telecommunications speed up the flow of information and <b>exchange of knowledge and ideas</b> which can directly help to improve human capital and the standard of living</li> <li>Access to energy has a significant <b>effect on productivity</b> e.g. the opportunity cost of previously spending time looking for heating fuel can now be used more productively</li> </ul>	<ul style="list-style-type: none"> <li>Each infrastructure project requires significant <b>government spending</b> and so carries an opportunity cost</li> <li>Infrastructure projects may take a long time to complete</li> <li>Infrastructure projects are subject to <b>political pressure and lobbying</b></li> </ul>

## Inward Foreign Direct Investment (FDI)

- Inward FDI occurs when investment by foreign firms results in more than a **10% share of ownership** of domestic firms
- Foreign FDI has the potential to **generate significant economic growth** as more economic activity, employment and output is generated



Your notes

- Foreign FDI has the **potential to raise household income** which helps to break the poverty cycle
- The impact of FDI on economic growth depends on **how the FDI occurs**
  - E.g. Chinese firms frequently invest overseas, but bring their own employees with them - and send all of their profits home - the economy and individuals within the economy benefit less than they could have
  - E.g. Indian firms frequently invest overseas and tend to hire local employees and reinvest more of the profits than Chinese firms generally do

### Advantages and Disadvantages of FDI to Generate Economic Growth and Development

Advantages of FDI	Disadvantages of FDI
<ul style="list-style-type: none"> <li>▪ FDI can be a major <b>source of finance</b> in less economically developed countries</li> <li>▪ FDI helps to generate extra national income which can increase the level of <b>savings</b> - and higher savings can help to increase funds available for domestic investment</li> <li>▪ Expansion of supply can lead to <b>increased employment</b> opportunities</li> <li>▪ The government may receive <b>higher tax revenue</b> generated by the increased profits from the additional level of national output</li> <li>▪ As more foreign firms invest, governments often start to develop <b>new infrastructure</b> to support their business activity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weak local regulations are often exploited leading to poor working conditions and increased <b>negative externality's of production</b></li> <li>▪ <b>Profits</b> tend to be moved off-shore or returned to the home country of the multinational firms which means that less is reinvested back into the development of the host nation</li> <li>▪ Multinational firms often pay very little tax to host nations as they use <b>sophisticated corporate practices</b> to reduce the amount of tax they are liable for (e.g. <b>transfer pricing</b>)</li> <li>▪ Local firms may <b>struggle to compete</b> with multinational firms who are now based in their country - and they go out of business</li> <li>▪ Multinationals are likely to have the power to keep <b>wages low</b></li> <li>▪ Multinationals may use workers from their country for <b>management roles</b> and only employ local unskilled labour for manual tasks. The workers may not develop many new skills from the role</li> </ul>



Your notes

## 4.10.4 Foreign Aid & Development Assistance

# Foreign Aid

- Foreign aid is often offered to developing nations in several different forms, including:
  - **Humanitarian/development aid**
  - **Debt relief**
  - **Official Development Assistance (ODA)**
  - **Non-governmental organizations (NGOs)**
  
- **Contextual factors** can influence the effectiveness of any of these and some that work well in one context may be less effective in another

## 1. Humanitarian/development aid

- Two of the most common forms are **grants & soft loans**

An Evaluation of Humanitarian Aid

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Aid has proven beneficial in times of distress</li> <li>▪ It is particularly helpful in response to large-scale one-off events such as earthquakes or tsunamis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Critics argue that aid <b>breeds dependency</b>, corruption &amp; disincentivises individual responsibility                             <ul style="list-style-type: none"> <li>▪ E.g. The Central African Republic receives <b>ongoing food aid</b></li> </ul> </li> </ul>

## 2. Debt relief

- Many developing nations have borrowed significant sums of money in the past which have to be **repaid (with interest)** over a long period of time
- The **opportunity cost** of these repayments is significant & often includes
  - Loss of infrastructure development



- Inability to create a welfare system
- Investment in human capital/education
- Countries began to default on their loans in 1982 (Mexico was the first) & this has led to the **restructuring** of these loans to make it more affordable
- More recently there has been significant progress in **writing off** the entire debt of the most **heavily indebted poor countries (HIPC)** so that they can focus on building their economies

#### An Evaluation of Debt Relief

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ The actual repayment of debt is removed or reduced</li> <li>▪ The opportunity cost of <b>debt repayments</b> is reduced or eliminated</li> <li>▪ The Government is able to use the money saved to provide new services and additional public/merit goods</li> </ul>	<ul style="list-style-type: none"> <li>▪ The country may have a lot more funds available than ever before and this can breed corruption as individuals in government seek to get their hands on it</li> <li>▪ Once the debt is forgiven, many <b>developing nations</b> borrow more money and the cycle starts again</li> </ul>

### 3. Official development assistance (ODA)

- **ODA** can be **bilateral** (from donor government to recipient government) or provided through a **multilateral** development agency, such as the United Nations
- Two of the most common forms of ODA are **grants & soft loans**
- The United Nations has set a target for **more economically developed countries** to spend 0.7 per% of their gross domestic product (GDP) on ODA to help countries eliminate poverty and become developed

#### An Evaluation of ODA

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Funds are available to the LEDC over a long-term period to help with the <b>economic development</b> goals</li> </ul>	<ul style="list-style-type: none"> <li>▪ Countries may become dependent on the ODA</li> </ul>



Your notes

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>▪ Bilateral ODA can help to develop the relationship between the two countries, possibly <b>facilitating the exchange</b> of resources, ideas and technology</li> </ul> | <ul style="list-style-type: none"> <li>▪ <b>Corruption</b> may mean funds are diverted from their true purpose</li> <li>▪ ODA in the form of loans has to be repaid and these repayments carry an opportunity cost</li> </ul> |
|--|---|

## 4. Non-governmental organizations (NGOs)

- These are typically **voluntary**, community-based organisations which do not aim to make a profit but seek to meet a need or **provide a service**
- They operate locally, nationally and/or internationally
- With a community based emphasis, they are able to
  - Engage in **small scale projects** giving control to community stakeholders
  - Draw on local skills
  - Encourage sustainability & remove the need for **aid**
  - Tackle **environmental sustainability** using local knowledge & resources
- NGOs have played a major role in many LEDCs and their **aid often comes with fewer conditions** or expectations than ODA
- Examples of NGOs include Oxfam International, Save the Children International and World Vision International

### An Evaluation of NGOs

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ NGOs can elicit support for particular need from a very wide audience including the <b>global public</b> and many wealthy governments</li> <li>▪ They often have <b>specialists working for them</b> who provide in country support so as to increase the efficiency of their aid</li> </ul>	<ul style="list-style-type: none"> <li>▪ The country receiving the aid can become overly dependent on it</li> <li>▪ The scope of what an NGO can do may be limited or only <b>focussed on one segment</b> of the population e.g children</li> </ul>



- They conduct research, gather data and as a result often make **highly specific project proposals** aimed at directly improving the standard of living
- NGOs can help develop **human skills** in the countries in which they work and this helps to break the poverty trap

## Multilateral Development Assistance

- **Multilateral organisations** are made up of member governments from around the world
  - They pool their resources together which enables large-scale development programmes to be funded
- **The World Bank** and the **International Monetary Fund (IMF)** play an active role in providing multilateral development assistance

### An Explanation of Organisations that Assist in Development

Organisation	Explanation of what they do
<b>World Bank</b>	<ul style="list-style-type: none"> <li>▪ Founded in 1944 as the International Bank for Reconstruction and Development to fund <b>postwar redevelopment</b></li> <li>▪ They provide <b>reconstruction loans</b> to countries devastated by war</li> <li>▪ They <b>provide loans</b> to developing countries to aid in their development</li> <li>▪ They provide loans to countries to assist with the development of <b>infrastructure</b></li> <li>▪ They work with governments and institutions so as to encourage <b>economic reform</b> and <b>trade liberalisation</b></li> </ul>
<b>International Monetary Fund (IMF)</b>	<ul style="list-style-type: none"> <li>▪ Founded in 1944 with the aim of establishing a <b>stable global financial system</b> that could help with postwar reconstruction efforts and better deal with challenges such as the <b>Great Depression</b> of the 1930s</li> <li>▪ John Maynard Keynes was one of two founders</li> <li>▪ They aim to facilitate a stable global financial system</li> <li>▪ They oversee exchange rates and the system of international payments that occurs between nations and individuals</li> </ul>

- They **monitor** country policies and national, regional and global economic and financial developments through a formal system known as **surveillance**
- They provide member countries with currency to help deal with **balance of payments** problems



Your notes





Your notes

## 4.10.5 Institutional Change

### Changing Institutional Factors

- **Sound institutions**, free from corruption and well-established help a country to progress in human development

#### 1. Access to credit and banking (finance)

- Financial institutions enable individuals and firms to **borrow money** which can be used for investment or to generate growth
- A lack of financial institutions prevents this from happening and causes the **poverty trap** to continue
- **Mobile banking** has increased significantly in most developing countries
  - This allows customers to conduct financial transactions more easily and facilitates a flow of finance in more remote areas
- **Microfinance** has been very successful in breaking the poverty trap for some households in LEDCs
  - **The Grameen Bank** pioneered the use of microfinance in Bangladesh and the country saw significant gains in economic development

#### The Advantages and Disadvantages of Microfinance

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Small but meaningful loans can be made to poor households to help them <b>start a business</b></li> <li>▪ The loans can be <b>targeted at women</b></li> <li>▪ Running a business improves <b>human capital</b> and also raises income</li> <li>▪ Loan repayment helps to build <b>self esteem</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Some loans are not repaid (a very small %)</li> <li>▪ Some <b>microfinance organisations</b> raise money from private donors and have been criticised for taking high management fees and salaries e.g. Kiva</li> </ul>



Your notes

## 2. Property and land rights

- In many countries, property is the main household **asset** which can be used to secure loans or generate income
- A lack of property rights in some **developing countries** prevents this from happening and causes the poverty trap to continue

### The Advantages and Disadvantages of Permitting Property Rights

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ The more certain the <b>legal protection of property rights</b>, the easier it is for households to access loans</li> <li>▪ Property rights also provide <b>shelter security</b></li> <li>▪ Property rights help households to <b>generate income</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ The issuing of property rights can lead to <b>property monopolies</b> over time as wealthier individuals purchase multiple properties</li> <li>▪ Property monopolies could reduce the amount of property available for purchase or rent - and <b>raise housing or rental prices</b></li> </ul>

## 3. Women's empowerment

- **Gender inequality** reduces the incentive for women to enter the workforce resulting in a smaller production possibility curve for the nation
  - This represent a loss of efficiency for a nation
  - Household income is suppressed which worsens the quality of life
- **Increasing women's empowerment** reverses these effects
  - The additional income helps to break the poverty trap in LEDCs
  - Increased opportunity **incentivises young girls** to study harder which helps to close any existing **education gaps** between genders

## 4. Reducing corruption

- **Corruption** reduces investment, limits economic growth and **affects the pattern of government spending** within a country
  - These consequences of corruption hold back economic development and growth
  - Corruption is often enabled or led by the government or figures in the government



Your notes

**Tackling corruption has the following advantages:**

1. There is **more confidence** in the economy and foreign direct investment increases
2. Money allocated to development projects in the country actually gets used for development
3. As national output rises, **tax revenue rises** and the government is able to provide more services, merit goods, and public goods
4. An increase in national output leads to more employment opportunities, which can raise household income



Your notes

## 4.10.6 Evaluating Market Orientated Approaches Versus Government Intervention

### Pros & Cons of Market Oriented Approaches

- **Market orientated approaches** aim to reduce government intervention and free up private-sector economic activity so that national output (real GDP) increases
- As national output increases, the potential to break the **poverty trap** increases and this can lead to better economic development in a nation

Pros and Cons of Market-Orientated Approaches

Pros	Cons
<ul style="list-style-type: none"> <li>▪ <b>Competitiveness:</b> the more competitive the environment the more <b>foreign firms</b> are likely to invest as competition lowers costs and generates innovation</li> <li>▪ <b>Efficiency:</b> Less government intervention should result in better allocation of resources as the process is led by the market forces of demand and supply</li> <li>▪ <b>Economic growth:</b> free markets encourage entrepreneurship in the search of profit and this increases real GDP</li> <li>▪ <b>Increased FDI:</b> Multinational corporations prefer to invest in economies where the markets are more open, where there is less regulation and government intervention</li> <li>▪ <b>Trade liberalisation:</b> Removing the barriers to international trade such as tariffs and quotas increases economic growth, raising household income</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Increased market failure:</b> with less government intervention the amount of <b>negative externalities</b> will increase (both production and consumption)</li> <li>▪ <b>Development of a dual economy:</b> Many LEDCs have both a large informal sector and a thriving formal sector based around the activities of multinational corporations which contributes to growing income inequality</li> <li>▪ <b>Increasing inequality:</b> the benefits of free markets are increasingly concentrated in the hands of a few as those with assets continue to buy up the <b>factors of production</b></li> </ul>

EXAM TIP

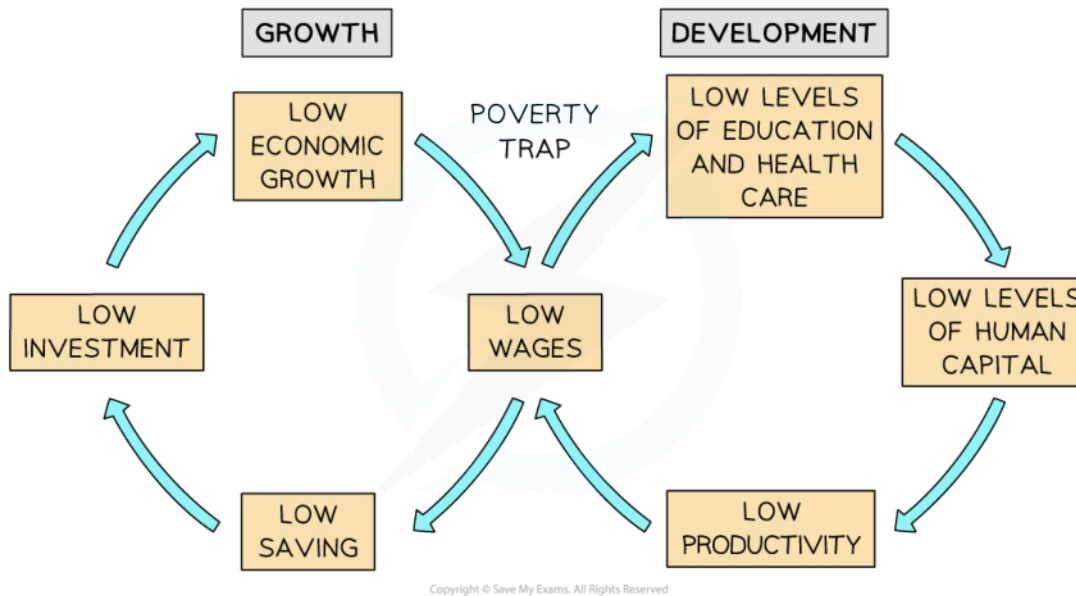




Your notes

You will notice a lot of similarities in the lists on this page with the pros and cons of supply-side policy, but there is one distinct difference. When evaluating supply-side policy, the focus is on increasing national output (real GDP). When evaluating pros and cons in the context of economic development, focus on how market policies have the potential to improve lives and the standard of living.

One way to do this is to always link a policy to the poverty trap diagram - and then explain where the policy would intervene to break the poverty trap. Here is an example



More international trade increases national output → more workers are required to produce this output → employment increases → human capital increases as a result of employment → productivity increases → wages increase → health and education increase → leading to higher human development and a better standard of living

## Pros & Cons of Government Intervention

- **Government intervention** can be vital to the development of its citizens
- Provision of services, merit goods, and public goods enhances the lives of a country's citizens

### Pros and Cons of Government Intervention



Your notes

Pros	Cons
<ul style="list-style-type: none"> <li>▪ <b>Infrastructure:</b> energy, transport, health and telecommunications infrastructure improves the standard of living</li> <li>▪ <b>Investment in human capital:</b> education increases skills leading to higher productivity in an economy</li> <li>▪ <b>Provision of social welfare:</b> support mechanisms for the most vulnerable in society helps to raise the standard of living</li> <li>▪ <b>Stable economic growth:</b> government intervention can even out the swings in the <b>business cycle</b></li> <li>▪ <b>Reduction in income inequality:</b> governments are able to regulate the disparity between rich and poor through the use of policies such as <b>progressive taxation</b></li> <li>▪ <b>Institutional systems:</b> Strong institutions such as police and defence forces can be used to deal with national emergencies such as earthquakes which helps a country to recover more quickly</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Inefficiencies:</b> The government focusses on services and not necessarily on generating profit. This can generate inefficiencies in resource allocation and the development of large, overstaffed organisations</li> <li>▪ <b>Corruption:</b> large amounts of money generated through taxation can prove tempting to those managing the budgets leading to the misuse of government funds and other forms of corruption</li> <li>▪ <b>Government capture:</b> powerful business people or large corporations can build such strong relationships with government ministers that they end up controlling the resources through the influence</li> <li>▪ <b>Poor planning and decision-making:</b> politicians are assigned to run departments in which they do not necessarily have any expertise and this can lead to poor planning and decision making</li> <li>▪ <b>Fluctuating political agendas:</b> government terms are relatively short and two party government systems tend to result in wild fluctuations of policy which can create instability</li> </ul>


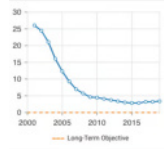




Your notes

## 4.10.7 Progress Towards Sustainable Development Goals


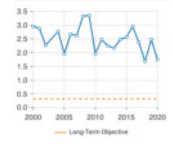
### Case Study 1 – Armenia

Armenia's Progress Towards Three of the SGDs ( Source: [SDGIndex.org](http://SDGIndex.org))

Goal	Progress	Chart
	<ul style="list-style-type: none"> <li>▪ <b>The prevalence of undernourishment</b> considers the percentage of the population whose food intake is "insufficient to meet dietary energy requirements for a minimum of one year" (SDGIndex)</li> <li>▪ "Dietary energy requirements are defined as the amount of dietary energy required by an individual to maintain body functions, health and normal activity" (SDGIndex)</li> <li>▪ There has been <b>good progress</b> with the value falling from 27 in 2001 to 3.40 in 2019</li> <li>▪ <b>Undernourishment causes productivity to fall</b> and it can be assumed that with more nourishment, health and productivity will improve</li> <li>▪ Since 2015, there has been a <b>slight increase</b> in the undernourishment indicator</li> </ul>	<p>SDG 2 - INDICATOR Prevalence of undernourishment %</p> <p>● SDG achieved ↑ On track or maintaining SDG achievement</p> <p>WMK 3.40 YR 2019</p> 
	<ul style="list-style-type: none"> <li>▪ This metric consider "the percentage of adults, 15 years and older, <b>who report having an account</b> (by themselves or with someone else) at a bank or another type of financial institution, or who have personally used a mobile money service within the past 12 months" (SDGIndex)</li> <li>▪ <b>Access to banking</b> increases the ability to make transactions that can improve the standard of living e.g. remote vendors selling agricultural products can receive payment by mobile phone</li> <li>▪ Between 2014 and 2018 there has been a <b>significant improvement</b> in access to banking moving from 20% of the population to 50%</li> <li>▪ This value is still well below the target but <b>the data is not current</b> and judging by the trend, the current percentage could be a lot higher</li> </ul>	<p>SDG 8 - INDICATOR Adults with an account at a bank or other financial institution or with a mobile-money-service provider % of population aged 15 or over</p> <p>● Major challenges remain ↑ On track or maintaining SDG achievement</p> <p>WMK 47.76 YR 2017</p> 


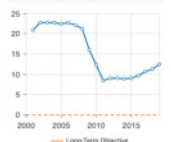


Your notes

	<ul style="list-style-type: none"> <li>The number of <b>intentional homicides per 100,000 people</b></li> <li>"Intentional homicides are estimates of unlawful homicides purposely inflicted as a result of <b>domestic disputes and interpersonal violence</b> and do not include all killing, such as killing in armed conflict" (SDGIndex)</li> <li>The progress in Armenia between 2000 and 2020 has been erratic</li> <li>Overall, there is a <b>positive downward trend</b> from a value of 3 in 2000 to a value of 1.7 in 2020</li> <li>The value peaked in 2008/9 at 3.4</li> </ul>	<p>SDG 16 - INDICATOR Homicides per 100,000 population</p> <p>Challenges remain On track or maintaining SDG achievement</p> <p>Value 1.75 Year 2020</p> 
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## Case Study 2 – Ecuador




Ecuador's Progress Towards Three of the SGDs ( Source: [SDGIndex.org](http://SDGIndex.org))

Goal	Progress	Chart
	<ul style="list-style-type: none"> <li><b>The prevalence of undernourishment</b> considers the percentage of the population whose food intake is "insufficient to meet dietary energy requirements for a minimum of one year" (SDGIndex)</li> <li>"Dietary energy requirements are defined as the amount of dietary energy required by an individual to maintain body functions, health and normal activity" (SDGIndex)</li> <li>Between 2008 and 2011 there was <b>good progress</b> with the value falling from 22 to 8</li> <li>Undernourishment has been increasing slowly, but steadily since then and in 2020 was at 13</li> <li><b>Undernourishment causes productivity to fall</b> and it can be assumed that with increasing undernourishment, health and productivity will worsen</li> </ul>	<p>SDG 2 - INDICATOR Prevalence of undernourishment %</p> <p>Significant challenges remain Score decreasing</p> <p>Value 12.40 Year 2019</p> 





Your notes

	<ul style="list-style-type: none"> <li>This metric considers "the percentage of adults, 15 years and older, <b>who report having an account</b> (by themselves or with someone else) at a bank or another type of financial institution, or who have personally used a mobile money service within the past 12 months" (SDGIndex)</li> <li><b>Access to banking</b> increases the ability to make transactions that can improve the standard of living e.g. remote vendors selling agricultural products can receive payment by mobile phone</li> <li>Progress is slow. Between 2011 and 2018 there has been a <b>small improvement</b> in access to banking moving from 38% of the population to 50%</li> <li>In the final 4 years the increasing trend was starting to flatten</li> <li>This value is still well below the target but <b>the data is not current</b>. <b>However</b>, judging by the trend, the current percentage is not likely to be much higher</li> </ul>	<p>SDG 8 INDICATOR Adults with an account at a bank or other financial institution or with a mobile-money-service provider % of population aged 15 or over</p> <p>● Significant challenges remain ▲ Score moderately improving, insufficient to attain goal</p> <p>Value: 51.25 Year: 2017</p> 
	<ul style="list-style-type: none"> <li>The number of <b>intentional homicides per 100,000 people</b></li> <li>"Intentional homicides are estimates of unlawful homicides purposely inflicted as a result of <b>domestic disputes and interpersonal violence</b> and do not include all killing, such as killing in armed conflict" (SDGIndex)</li> <li>The progress in Ecuador between 2000 and 2020 has been mostly positive</li> <li>It <b>initially increased</b> between 2001 and 2007 when it peaked at a value of 18</li> <li>Homicides then fell steadily until 2018 with the <b>lowest recorded value of 6</b></li> <li>Since 2018 there has been a concerning <b>upward trend</b> in this value</li> <li>Overall, there is a <b>positive downward trend</b> from a value of 15 in 2000 to a value of 8 in 2020</li> </ul>	<p>SDG 16 INDICATOR Homicides per 100,000 population</p> <p>● Major challenges remain ▲ Score stagnating or increasing at less than 50% of required rate</p> <p>Value: 7.78 Year: 2020</p> 