CIE Economics A-level

Topic 4: The Macroeconomy

c) Classification of countries

Notes

Indicators of living standards and economic development

The three dimensions of the Human Development Index (HDI)

The components of HDI are education, life expectancy and standard of living, measured by real GNI at purchasing power parity (PPP) per capita.

It measures economic and social welfare of countries over time.

The education component combines the statistics of the mean number of years of schooling and the expected years of schooling.

The lift expectancy component uses a life expectancy range of 25 to 85 years.

The standard of living component measures GNI adjusted to PPP per capita. GDP was used instead of GNI, but to account for remittances and foreign aid, GNI is now used, since it reflects average income per person.

The average world HDI rose from 0.48 in 1970 to 0.68 in 2010. This was mainly due to the growth of East Asia, the Pacific and South Asia.

A value close to 1 is indicative of a high level of economic development. A value close to 0 suggests a low level of development.

The advantages and limitations of using the HDI to compare levels of development between countries and over time

- HDI does not consider how free people are politically, their human rights, gender equality or people's cultural identity.
- HDI does not take the environment into account. It could be argued that this should be included to focus on human development more.
- HDI does not consider the distribution of income. A country could have a high HDI but be very unequal. This can mean many people might still be in poverty.

- HDI does allow for comparisons between countries to be made, based upon which countries are generally more developed than other countries.

- It provides a much broader comparison between countries than GDP does.

- Education and health are important development factors to consider, and it can provide information about the country's infrastructure and opportunities. It also shows how successful government policies have been.

- **Measure of Economic Welfare (MEW):** This is an alternative to GDP. It takes national output, and then adjusts it to include a value for leisure time and unpaid work. This increases the welfare value of GDP. The value of environmental damage caused by industrial production and consumption is also considered.

- **Human Poverty Index (HPI):** measures life expectancy, education and the ability of citizens to meet basic needs. There are two types: HPI-1 and HPI-2. The former measures poverty in developing countries and the latter measures poverty in developed countries.

  In HPI-1, the longevity part of the index measures the probability of living to the age of 40. The education component considers the adult literacy rate. The ability of citizens to meet basic needs is measured by the percentage of underweight children and the percentage of people not using improved water sources.

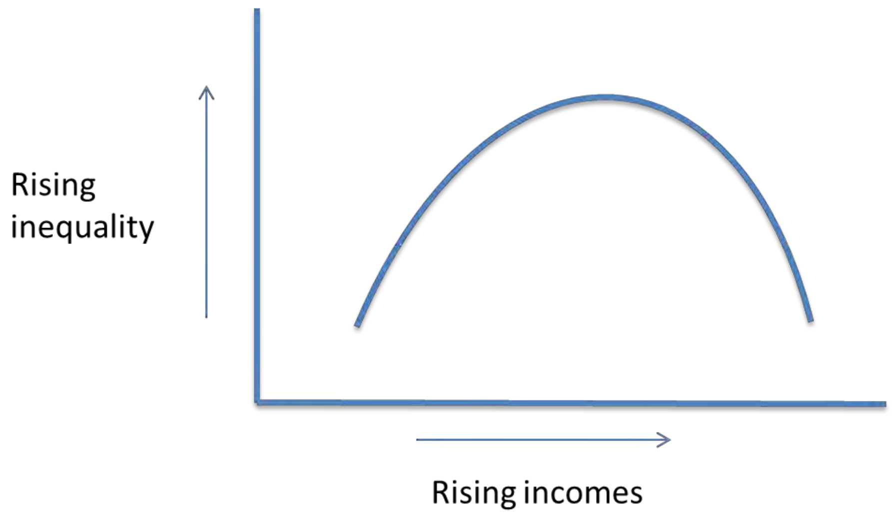
  For HPI-2, the probability of not surviving to at least the age of 60 is used. The percentage of adults which do not have literacy skills is calculated, and poverty is calculated by those living below the poverty line. This is below 50% of median income.

- **Multidimensional Poverty Index (MPI):** measures poverty in over 100 developing countries. It works with income based measures, and it considers the lack of education, poor health and low living standards that people face. This means that poverty can be assessed on an individual level, and the intensity of poverty can be measured by considering what is deprived.

- **Gender-related Development Index (GDI):** measures the relative inequality between men and women. It combines HDI with a consideration of gender. For example, it will consider differences in life expectancies, income and education between genders.

Kuznets curve

Kuznets hypothesis states that as society moves from agriculture to industry, so it develops, inequality within society increases, since the wages of industrial workers rises faster than farmers. Kuznets curve is shown below.



Then, wealth is redistributed through government transfers and education. He essentially argued that inequality in poor countries is just a transitional phase, and once nations become economically developed, inequality reduces.

Thomas Piketty famously discredited this theory in 2014 by arguing that the capitalist free market system inevitably leads to continued inequality. The rate of return on capital increases, so as the rich get richer with higher returns on their investments, inequality increases.

Characteristics of developed, developing and emerging (BRICS) economies

LEDCs

Less economically developed countries (LEDCs) tend to be characterised by the following features:

- Low life expectancies
- High mortality rates
- High dependency ratio
- Low GDP

- Fast population growth
- Low levels of education
- Poor standard of living
- Poor nutrition, lack of access to clean, safe drinking water and a lack of sanitation
- Poor or absent health care provision

MEDCs

More economically developed countries (MEDCs) are characterised by:

- Long life expectancies
- High income per capitas
- High levels of education
- Slow population growth per year
- Low mortality rates
- Urban and city populations are large

BRICS Economies:

- The BRICS are Brazil, Russia, India, China and South Africa. South Africa was included in 2010.
- They are characterised by their fast growth and their recent industrialisation. They have significant influence in global affairs and all five nations are part of the G20.
- They rely heavily on industry: manufactured and engineered goods make up a lot of their exports
- There is a lot of potential for innovation, particularly in renewable energy (Brazil:3rd, Russia:5th, India:6th and China 1st in the world)
- They are all seeing a considerable increase in demand for a higher standard of living.