Edexcel (A) Economics A-level

A-level Paper 2: National and Global Economy

Example answers

Development

These questions were taken from the old specification but answered and marked according to the new specification marking grid.

Assess the view that economic development is dependent on economic growth. Refer to examples of developing countries. (20)

Economic growth is an increase in the productive potential of the economy, measured by an increase in real GDP. Development is an improvement in living standards, measured by a range of measurements such as HDI.

Economic growth leads to economic development in a number of ways. Economic growth means that national income has risen and so this leads to development since people have higher incomes so can afford a better quality of life. Moreover, there are lower levels of unemployment when growth occurs and thus this will mean there will be less people in absolute poverty. On top of this, economic growth means higher tax revenues for the government. They can raise more due to higher incomes and company profits which mean people have to pay tax. More goods will be sold in the country, so more money can be earned from indirect taxes e.g. VAT. All of this helps to provide the prospect of economic development because it means the government has more money to spend on providing services. This can be in the form of education and healthcare for all, which will improve living standards generally. It could also be through providing benefits to the poorest in society, which will help to eradicate absolute poverty. One example of a country which has seen both growth and development is China. Since the 1970s, they have seen a huge rise in their GDP but they have also lifted millions of people out of poverty and provided a better quality of life through healthcare and education. This can be seen through the emergence of the middle class.

However, even in China, there is strong inequality and lack of political freedom. This holds back development and suggests that development may not be dependent on growth. Growth in a country may be unequally spread and the money may only go to those at the top. Corruption may mean that tax revenues are not collected or used efficiently and so the poor are unable to receive the benefits of high spending. All of this means that whilst national income grows, the living standards of the poor may not increase. On top of this, China also shows that growth may not lead to development because there has been a rise of global warming and pollutant gases. This has begun to effect health in the country and means that face masks have to be used in some cities. Thus, it can be argued that living standards have not risen.

On top of this, it is possible for development to occur without growth. Aid can be used in countries which help to alleviate poverty and provide the poor with access to healthcare and abortion. This means that their living standards improve without major economic growth, although it is likely to lead to growth in the future. One example of this could be Haiti, who saw a lot of aid after their earthquake in 2010. However, the problem with this type of development is that it tends to only occur short term when aid originally arrives. Most aid is spent on infrastructure and thus it improves growth not development.

Overall, economic development is dependent on growth in the long term. Although growth does not necessarily lead to development due to inequality, corruption etc., it is important for a country to grow to be able to achieve the funds necessary to develop. Growth allows a country to develop continuously whilst other methods of development will often have an impact short term.

Teacher's comments:

Good- key to raise is that growth provides the potential for development but the way that the growth is managed determines whether it will happen

Discuss the view that the savings gap in developing countries is the most significant constraint on growth. (30)

The savings gap is the gap between the amount of investment in a country and the level needed to achieve growth. It was put forward in the Harrod Domar model which says that for the investment to occur, there needs to be savings and that growth is dependent on the level of investment. Without savings, banks have no money to provide credit and individuals have no money to invest with. This limits the improvements in infrastructure and innovation, limiting the supply side of the economy. There is a lack of machinery as people cannot buy it and this keeps productivity and therefore output low, preventing growth. The savings gap is a common problem experienced by many developing countries. It is caused by the low incomes in the country, meaning people have no money to save, and the lack of access to finance and borrowing. There is a low marginal propensity to save as most people want to spend any increase in income to improve living standards. This is an important cause to an extent because limited investment means that a country will struggle to industrialise, often seen as the next stage of development. However, this is less important because many developing countries experience high levels of aid, FDI and microfinance which should help to fill the savings gap. These funds can be used to invest and therefore create growth. The fact that countries still struggle to develop after this suggests that another factor must be more important.

The most important constraint on growth is primary product dependency. The Prebisch-Singer hypothesis says that the price of secondary goods will as they are positive income elastic but the price of primary goods will fall as people don't demand more of them as their income rises. This means that countries struggle to develop since as the world economy grows, they see falling prices and thus a deterioration in their terms of trade. This means they can afford to buy less imports and so they may struggle to get machinery etc. which will help them to grow. On top of this, primary products are volatile in price as they are demand and supply price inelastic. Any change in demand or supply will lead to a huge change in price and thus the country will see a large change in their income. This means that growth can fall very rapidly and also means there is a lack of confidence to encourage people to invest. On top of this, primary products are often sold for very low prices which means farmers have low incomes and thus causes the saving gaps. One example of a country suffering from primary product dependency is Ghana, who are reliant on gold and coffee and they had to get a loan from the IMF in 2014 because of issues relating to their primary product. In some cases, primary products like oil have allowed rapid growth but this will cause problems when the raw material runs out. Most countries depend on lower income primary products and so experience difficulties.

Another constraint on growth is a lack of education and skills. This causes low productivity because workers are unskilled and so cannot do their jobs quickly. This means that the supply side of the economy is limited. However, most jobs in the country tend to be low skilled and this could suggest that education is unimportant as it does not help in jobs anyway. Countries like the UK grew massively during their Industrial Revolution whilst still having low education. It could be argued that more education would improve the skill level of jobs in the country, but most firms come to the country to invest in cheap labour not high skilled workers

Overall, the most important factor is primary product dependency. It keeps incomes low and makes incomes unstable. As countries grow, they tend to switch from primary to secondary products and this led to massive growth. The economies of the fastest growing countries, the emerging economies, shows how moving away from primary goods allows for rapid development.

Teacher's comments: A+

Good answer although I am not totally convinced by your conclusion. You could talk about prices generally rising? Also, again it depends on what the government does with their wealth generated from primary products such as oil.