Edexcel (B) Economics A-level

Theme 2: The Wider Economic Environment

2.4 Life in a Global Economy

2.4.2 Developed, emerging and developing economies

Notes

Indicators of growth:

GDP per capita

GDP per capita is the value of total GDP divided by the population of the country. Capita is another word for 'head', so it essentially measures the average output per person in an economy. This is useful for comparing the relative performance of countries.

The limitations of GDP

GDP does not give any indication of the distribution of income. Therefore, two countries with similar GDPs per capita may have different distributions which lead to different living standards in the country.

GDP may need to be recalculated in terms of purchasing power, so that it can account for international price differences. The purchasing power is determined by the cost of living in each country, and the inflation rate.

There are also large hidden economies, such as the black market, which are not accounted for in GDP. This can make GDP comparisons misleading and difficult to compare.

GDP gives no indication of welfare. Other measures, such as the happiness index, might be used to compare living standards instead or in conjunction with GDP.

Literacy and health

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.

The Millennium Development Goal (MDG) was to half the number in extreme poverty and hunger by 2015. To date, this goal has been met. Since the proportion of people in poverty has halved, around 90% of children now have primary education (compared to about 80% before) and almost 90% of people have access to improved water sources.

Life expectancy can be used to give information about education and health. For example, Malawi has a life expectancy below the world average, which is closely linked to poor access to clean water (and other sanitation).

The literacy rate is the proportion of adults who can read and write. Another education indicator could measure the proportion of the population who has attended primary school. An indicator of healthcare in a country might consider how many doctors are available for every patient.

○ 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

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.

Characteristics of developed (mature), emerging and developing economies

Developed economies

Developed economies have high levels of economic growth and have stable economies.

- Long life expectancies
- High income per capita
- High levels of education
- Slow population growth per year
- Low mortality rates
- Low birth rates
- Urban and city populations are large
- A dominant industrial sector and weaker agricultural sector

Developing economies

- Low life expectancies
- Low or middle incomes
- High mortality rates
- High dependency ratio
- Low GDP
- Fast population growth
- Low levels of education, which results in low levels of productivity
- 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
- Low savings rate

Emerging economies

- The BRIC economies are emerging markets, which is comprised of Brazil, Russia, India and China.
- They are characterised by their fast growth and their recent industrialisation. They are moving away from agriculture.
- They have significant influence in global affairs and all four 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. This is driven by the growing middle classes in India and China who are demanding more goods and services, such as mobile phones.

Mean and median incomes

The average income in a country can be measured by both the mean and the median.

The mean income of the country is the total income of an economy (GDP) divided by the number of people of working age in the country (the population).

The median income is the 'middle value' of all incomes in a country.