

Edexcel Economics AS-level  
**Unit 2: Macroeconomic Performance  
and Policy**

Topic 1: Measures of  
Macroeconomic Performance

**1.5 Measures of development - Human  
Development Index (HDI)**

Notes



### **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 life 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 importance of using purchasing power parity (PPP) exchange rates when making international comparisons of living standards**

 This is a theory that estimates how much the exchange rate needs adjusting so that an exchange between countries is equivalent, according to each currency's purchasing power. For example, if a car cost £15,000 and the exchange rate between the UK and the US is 1.5 £ per \$, then in the US, the car should cost \$10,000. This means both cars cost the same number of US dollars, and the same number of pounds Sterling.

 This helps to minimise misleading comparisons between countries.

### **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.

