Debraj ray development economics pdf download

--ANNOUNCEMENTS:Sample Issues: - How does Amartya Sen define opportunities?- Download GDP per capita (current usd) data from the World Bank website.- What are the Millennium Development Goals?- What are the Sustainable Development Goals? - How is the Human Development Index calculated? - Find the latest HDI ratings. What is Turkey's rating? What are the general characteristics of developing countries? 1: Ranking the following countries by GDP per capita (current US dollar) Turkey, Russian Federation, Iranb) Turkey, Mexico, OECD average) Turkey, China, India, South Africa, Brazil-2: How good is GDP per capita as a development indicator? State 3 flaws. Issue 3: Suppose that the purchasing power parity between Turkey and the United States is 2, and the market exchange rate between the Turkish lira and the U.S. dollar is 5,a) Suppose that a basket of goods costs $100 in the U.S. How much TL do you need to purchase the same basket of goods in Turkey? b) How much does it cost $100 in Turkey? (Imagine an American traveling to Turkey.) (Note: Sections 2.5, 2.6 and 2.7 in Todaro-Smith (12th edition) will be covered later in the semester.) 1) How is the human development index calculated for Turkey? What is the country's HDI rating? What is HDI classification (very high, high, ...))? 2) What is the basic idea of linear stage theory? What are the main criticisms of the theory? What does the Harrod Dovor model say? 3) What is the basic idea of structural changes and models of development models? What are the main criticisms of these models? 4) What are the main criticisms of the two sectors of the Lewis model? 5) What are the main ideas of the neo-colonial dependence model, the model of false paradigm and thesis of dual development? What are the main criticisms of these models? 6) Show that in the model Solow with the production function Y'K'alpha . LA (1-alpha), there is a decrease in the return on capital accumulation.7) In the Solou model, what is the impact of the increase in depreciation rates on the stable income of the state per capita? Explain with graph.8) In the Solow model, how does the increase in the savings rate affect the stable income of the state per capita? Explain with graph.9) In the Solow model with technical changes, what is the steady growth rate of the state's income to an effective population? What is the rate of growth in per capita income in the state? 10) Ray, Chapter 5, Lecture Notes Page 5. Chart: The old sector compared to the new sector 11) Romer model of technological side effects. Describe the state of the state. Todaro-Smith 163 (end of chapter 3) 12) What is residual Solow? Describe how you would rate residual Solow? 13) In the Lucas model (Journal of Monetary Economics, 1988) which is a source of long-term income growth Population? In this model is there a role for public policy support for economic growth?14) In Romer's model with external factors, what is the source of long-term growth in per capita income? 15) In Romer's model with the research and development sector a source of long-term growth in per capita income? Why do we say that knowledge has public good characteristics? 16) What is complementarity? How can complementary people generate multiple equilibriums? 17) Imagine an economy in which firms need specialized skills and workers need to invest in those skills. Suppose a return to skill accumulation is positively linked to the number of employees investing in skills accumulation. What is the complementarity here? Explain how a coordination problem can lure the economy into a bad balance. 18) Explain why the dilemma of where to meet differs from the dilemma of prisoners. --19) Below are the distributions of income A, B and C, where the figures in the first set of brackets represent income, and the figures in the latter represent the number of persons with such income: A: (100, 200, 300); (25, 50, 25) B: (100, 200, 300); (40, 20, 40) K: (100, 250, 300); (40, 40, 20) What income distribution has the highest/lowest inequality?a) Calculate variation ratio (CV) b) Calculate the Gini coefficient (c) Draw three Lorenz curves on one chart. 20) Consider the following income distribution: (0.6, 0.6, 0.8, 0.8, 2, 2, 6, 6). The poverty line is set at 1.Calculatea) Staff Ratio (b) Average and normalized poverty gap (c) Average and normalized income deficit (d) P0, P1 and P2 (Foster-Greer-Thorbecke) 21) (a) (a) Show that the minimum and maximum values which can take a normalized gap in poverty, 0 and 1.b) show that mines and the maximum values that can take a normalized income deficit are 0 and 1.b. Show that mines and maximum values, which can take a normalized income deficit, are 0 and 1.b. Show that normalized income deficits can take 0 and 1.b. 22) What are the main economic characteristics of the population with high poverty levels? What do these characteristics tell us about the possible nature of a poverty-oriented development strategy? 23) Describe the inverted Kuznets hypothesis. Discuss the conceptual merits and limitations of this hypothesis for today's developing countries. 24) How can inequality lead to faster growth or development? How can this lead to slower growth or development? 25) Why is the greatest concern about the maximum growth rate of GNI being spent with broader social goals, such as eradicating poverty and reducing excessive income inequality? The answer is with the Ahluwalia-Cheneri Welfare Index. 26) What are the 3 phases of demographic transition? What they are apart from each other? 27) More than 75 million people are added to the world's population each year. Almost all of this net population growth - 97% - is in developing countries. (a) Suppose you were asked the view that high population growth rates were not a real problem. What are the three main arguments that you would make in your defense?b) Suppose you were asked to defend the view that high population growth is a real problem. What are the three main arguments that you would make in your defense?28) What is the trap of the Maltese population? Why is Maltusian theory limited to the experience of today's developing countries (state for at least two reasons)? 29) This question is about Figure 6.9 (about the microeconomics of fertility selection) in the Todaro-Smith textbook. Explain how the budget cap is changing when women's market wages are rising? 30) Explain briefly why the country's age distribution is related to population growth rates?31) Describe how the S-shape power curve (work) can lead to unequal distribution of resources within the household. 32) How do economists define institutions (i.e. what three elements do we use to define institutions)? How does the following paper examine the relationship between institutional quality and economic development? How do these researchers deal with the problem of endogenousness? Colonial Origins of Comparative Development: Empirical Investigation DARON ACEMOGLU, SIMON JOHNSON, AND JAMES A. ROBINSON, American Economic Review, Volume 91, No. 5 (December 2001), page 1369-1401. will be done at the end of the semester: Check the inequality statistics in the following sheets. Read What's Wrong with Extreme Inequality? (Source: Todaro and Smith, see below) no abstract available for this item. Smith, Stephen K., 2000. Development economics: Debrage Ray, Princeton: Princeton University Press, 1998, Hardcover, 848 pages, ISBN: 0691017069, Journal of Development Economics, Elsevier, vol. 62 (1), page 280-284, June. Pen: RePEc:eee:deveco:v:62:y:2000:i:1:p:280-284 As access to this document is limited, you can search for a different version of it. Access and download statistics All materials on this site were provided by the respective publishers and authors. You can help correct mistakes and omissions. When requesting a fix, please mention the handle of this item: RePEc:eee:deveco:v:62:y:2000:i:1:p:280-284. See general information on how to fix the material in RePEc. For technical issues regarding this item, or to correct its authors, the title, abstract, bibliographic or download information, contact: (Haili He). General provider contact details: . If you are the author of this item and have not yet registered with RePEc, we recommend that you do so here. This allows you to link your profile to that element. It also allows you to take potential quotes this point that we we uncertain about. You can help add them with this form. If you know the missing items by referring to this, you can help us create these links by adding relevant links just like the above for each reference item. If you are a registered author of this item, you can also check the quote tab on the RePEc Author Service profile, as there may be some quotes awaiting confirmation. Please note that it may take several weeks to filter through various RePEc services. Economics Development Economics Development Debraj Ray Copyright © 1998 Princeton University Press published by Princeton University Press, 41 William Street, Princeton, N.J. 08540 In the United Kingdom: Princeton University Press, Chichester, West Sussex All Rights Reserved Library of Congress Cataloging in the publication of data ray, Debraj. Economics Development / Debraj Ray. See P. See Includes bibliographic references and index. ISBN 0-691-01706-9 (cl : alk. paper) 1. The economy of development. I. Title. HD75. R39 1998 338.9--dc21 97-33459 This book was written in Princeton University Press Book printed on acid-free paper and meet guidelines for the continuity and durability of the Committee for the Production of Guidelines for the Book Longevity Of the Council on Library Resources Printed in the United States 10 10 9 8 7 ISBN-13: 978-0-691-01706-8 (tissue) For My Parents, Radha and Kalyan Content Foreword Chapter 1: Introduction Chapter 2: Economic Development: Exercise Review Chapter 3: Economic Growth Application Exercise Chapter 4: New Theories of Growth Appendix: Human Capital and Exercise Growth Chapter 5: History, Expectations and Development Exercises Chapter 6: Economic Inequality Exercises Chapter 7: Inequality and Development: Joining App: Several Sustainable States with Imperfect Capital Markets Exercises Chapter 8 : Poverty and Malnutrition Appendix: More On Poverty Measures Exercise Chapter 9 : Рост населения и экономического развития Упражнения Глава 10: Сельские и городские Упражнения Глава 11: Рынки в сельском хозяйстве: Введение Глава 12: Земельный приложение 1: Основные агенты теории и применения Приложение 2: Скрининг и sharecropping Упражнения Глава 13: Трудовые упражнения Глава 14: Кредитные упражнения Глава 14: Кредитные упражнения Глава 1415: Страховые упражнения Глава 16: Международная торговля Упражнения Глава 17: Торговая политика Приложение: Международный валютный фонд и Всемирный банк Упражнения Глава 18: Многосторонние подходы к торговой политике Упражнения Приложение 1: Элементарная теория игры Приложение 2: Элементарные статистические методы Ссылки Автор Индекс Тема Индекс Предисловие Эта книга содержит введение в экономику развития, предмет, который изучает transforming developing countries. My goal is to make sure that great literature is available, in a single sense, to a student or interested person who has some training in basic economic theory. It is fair to say that I am not fully satisfied with the final product: in trying to provide a well-structured attitude to this issue, I had to sacrifice a comprehensive approach. However, I believe that the book goes quite far in achieving the original goal, within the constraints created by the vast and cumbersome literature and limitations imposed on my own knowledge and understanding. The main purpose of this book is a senior undergraduate or master's degree student with an introductory or intermediate economic theory. I also recommend this book as a background or additional reading for a doctoral course on economics development, along with original articles on the subject. Mathematical requirements are kept to a minimum, although some degree of mathematical maturity will help to understand the material. In particular, I avoided the use of calculus in general and tried to present theoretical material through verbal arguments, diagrams, and sometimes elementary algebra. Since the book uses game theorists and statistical concepts, I've included two introductory applications on these topics. With these applications in place, the book is autonomous, except for the occasional requirement for the knowledge of the reader of introductory economic theory. I'll start with a review of developing countries (Chapter 2). I discuss the main trends in per capita income, inequality, poverty and population, and for the first time look at important structural characteristics of development. Chapters 3-5 focus on economic growth in several ways. Chapters 6-8 shift the focus to the analysis of unevenness in the virgin: the possibility that the benefits of growth may not be equal to all. In turn, such inequalities can affect aggregate trends. This interaction is studied from many perspectives. Chapter 9 of this debate extends to population growth, detailing the relationship between demographics and the economy. Chapter 10 examines uneven structural change: the fact that development is usually associated with the continued transfer of resources from one sector (usually agriculture) to another (usually industry and services). This chapter motivates a thorough study of the agricultural sector in which a large proportion of citizens of developing countries, especially the poor, live and work. Chapters 11-15 examine in detail informal markets with a particular focus on the rural sector. We analyze the land, labor, credit and insurance markets. Chapter 16 introduces the study of trade and development. Chapter 17 motivates and studies trade policy tools from the perspective of Country. Finally, Chapter 18 explores multilateral and regional trade policy. For programmes that offer a one-semester economic development course, two options are available: (1), if international economic issues can be classified as a separate course, cover all materials until the end of Chapter 15 (this will require some skimming of chapters such as chapters 4-6 and 11-15); (2) if it is desirable to cover international issues in the same course, omit most or most of the material in chapters 11-15. The annual rate should be able to adequately cover the book, but some additional materials may be required for the international economy as well as financial development issues such as inflation and monetary policy. This book could not have been written without my students and the many classes I have taught in the field of development economics over the years: I thank students at Boston University, at the Indian Statistical Institute, at the People's University of China in Beijing, at Stanford, and at Harvard. I would also like to thank many people who have read and commented on the previous projects of this book and used them in the courses they taught, among them, among them, Jean-Marie Baland, Abhijit Banerjee, V. Bhaskar, Gautam Bose, Ira Gang, James Foster, Patrick Francois, Gabriel Fuentes, Bishnupria Gupta, Ashok Kotwal, Dilip Mukherjee, Jonathan Mordou Several people contributed to this text. Chief among them is Parikshit Ghosh, my fearless and thoroughly uncontrollable researcher, whose contribution to this book is too much to mention. I would also like to thank Eli Berman, Gary Fields, Hsuuch-Ling, Ciente Hsu, Luis-Felipe Lopez-Calva, Anandi Mani, Ghazala Mansouri, Jonathan Mordauk and Hiranya Mukhopadhaya for their contributions at various stages. Most of this book was written when I was director of the Institute for Economic Development at Boston University. I thank Margaret Chapman, Administrative Assistant of the Institute, for covering my many administrative omissions during this period. I thank the Institute of Anelisis Economic (CSIC) in Barcelona, where this book was completed, and Minister de Educacion, the Government of Spain for financial support during my stay. I am very grateful to Peter Dougherty, my publisher at Princeton University, for his help and support. I would like to write down my deep appreciation (less) set of people who have shaped how I think about economics: Kenneth Strelka, Doug Bernheim, Bhaskar Dutta, Joan Esteban, Mukul Majumdar, Tapan Mitra, Dilip Mookherjee, Kunal Sengupta, Amartia Sen, and Rajiv Vohra. I thank Monica Das Gupta for countless discussions and for advice and support. Finally, I am indebted to Angela Bhaya Soares, who always wanted me to magnum opus, but but have to be content with what she gets, Beads Antikarova and Farahanaaz Dastur for having me safely through the bad times, Nilita Vahani for creating unforeseen but happy delays, and Jackie Bhaya for getting me started on it all. Debrage Ray of Boston University September 1997 Chapter 1 Introduction I invite you to explore what is by far the most important and perhaps the most complex of all economic issues: the economic transformation of those countries known as the developing world. Identifying developing countries is problematic and, once the point is, the World Development Report (World Bank)1996) uses the $9,000 per capita threshold to distinguish between what it calls high-income and low- and middle-income countries: according to this classification, more than 4.5 billion of the world's 5.6 billion people live in developing countries with low and middle incomes today. They earn, on average, about $1,000 per capita, a figure that stands in contrast to the annual earnings of the average North American or Japanese resident, which is well above $25,000. Despite the many reservations and reservations that we subsequently add to these figures, the pervasive fact of these surprising differences remains a fact. There are economic inequalities all over the world, but much of that is hopefully changing. This book contains a way of thinking about both inequality and change. There are two strands of thought that go through this text. First, I am moving away from the long-held view that the problems of all developing countries are best understood in terms of the international environment of which they are a part.2 From this view, backwardness must first be addressed in a global context. In this view there is a lot of that really, but I would like to emphasize equally fundamental issues that are internal to the structure of developing countries. While much of this book focuses on international aspects of development, a teacher or reader who wishes to focus exclusively on these aspects will not find a comprehensive approach here. The second thread is methodological: as far as possible, I take a unified approach to development issues and emphasize the recent and growing literature that takes a level of approach to market failure and the potential for government intervention. It is not that markets are inherently bad or inherently good: the point is to understand the conditions under which they fail or operate at an inefficient level, and to determine whether appropriate policies based on understanding these conditions can correct such inefficiencies. These conditions, I argue, can be better understood, a serious understanding of the issues that are at the forefront theories, but should more carefully in introductory textbooks: theories of incomplete information, incentives and strategic behavior. Few disagree that these considerations are at the heart of many of the observed phenomena. However, my goal is to promote the student's understanding of issues such as the banal model, not as a set of exceptions to the usual textbook paradigm of perfect competition and complete information. Because I take these two strands to heart, my book is different from other development textbooks in a number of ways. Most of these differences stem from my approach to exposure and the choice of subject matter. While I do not neglect the historical development of the line of research or research, I bring a completely modern analytical view on the subject. Here are some examples of what I mean. (1) The history of economic backwardness is in many ways a story of how informal, creative institutions replace the formal structures to which we are accustomed in industrialized countries. The landlord lends to his tenant farmer, accepting the labor force as collateral, but the formal credit market is not enough. Villagers insure each other against peculiar shocks, using their great information and their ability to impose social sanctions, but the formal insurance market is not enough. A variety of agencies, such as the associated labour force, credit cooperatives and extended families, can be seen as a response to market failure, caused in most cases by lack of information or by the failure of the legal system to quickly and effectively enforce contracts. This common thread in our understanding is emphasized and overestimated throughout the book. (2) The absence or lack of market depreciation gives rise to two other features. One is the creation of widespread external factors. The proper classification of these external factors gives an idea of various economic phenomena that at first seem unrelated but which (in this sense) are only a general expression of a small variety of external effects. So simple concepts from game theory, such as the prisoner dilemma or the coordination game, give an idea of a diverse class of developmental problems. Again, common traits of different problems give the mental classification system a way to see that different phenomena stem from a single source. 3) One of the main consequences of the lack of markets is that inequality in the distribution of income or wealth plays a central role in many development problems. It is not that inequality is overlooked in the treatise on development; it certainly has. Recently, however, a systematic analytical approach to the functional role of inequality has begun: the possibility that inequality, in addition to being is of interest to his own right, has implications for other economic economic criteria such as per capita income and growth rates. The emphasis on the functional role of inequality runs through the book. (4) It is necessary to try intuitively and not very abstractly to integrate the recent theoretical and empirical literature with more standard material. It is not made to be fashionable. I do this because I believe that much of this new work has new things to teach us. Some important models of economic growth, income distribution and development, failures in coordination or incomplete information are theories developed over the past decade. Work on these models continues at a rapid pace. While some of the techniques are unavailable to a student with little formal learning, I believe that all the ideas in this literature that are worth teaching (and there are many) can be taught in an elementary way. In this sense, this book coincides with existing texts on the subject: the use of mathematics is minimized (no calculus, except in a random footnote). Partly because other texts on development have been around for some time, and perhaps in part because of a different approach, the text is significantly moving away from the existing development texts at the points mentioned in the previous text, and even in its general methodological approach. By combining additional notions of incomplete information, a weak legal structure (as long as implementation is under way) and the resulting strategic and economic considerations, we are beginning to have some idea of what is making developing countries any different. Economic theorists never tire of needleing their friends with questions in this regard. Why is the study of developing countries a separate topic? Why can't we just break it down into special cases of the economy of labor, international trade, money, finance and so on? Sure, they have a point, but that's just one way to cut the cake. Another way to do this is to recognize that developing countries in their various fields of activity have demonstrated time and again these common failures of information and legal structures and therefore generate common incentives and strategic issues that could benefit from separate, concentrated controls. I also believe that this approach is a response to a different objection: all developing countries are unique and very different, and generalizations of any kind are misleading or, at best, dangerous. While this view can be applied in countries and regions, regions and villages until it becomes absurd, there is some truth to it. At the same time, while the differences may be very interested in a specialized researcher, emphasizing that the general may be the best way to get the material through the student. So I choose to that is common, trying not to overlook the features, which are many. The final bias is that in some basic sense the book is devoted to the theory of economic development. However, there is no theory without data, and the book is full of empirical research. At the same time, I'm not interested in filling page by page with numbers tables if these tables talk to a student in some kind of informative way. The same is true of case studies, the number of which will be in text.3 I try to choose empirical illustrations and case studies in everything to illustrate the point of view on the development process, and not necessarily for the sake of them. I started writing a textbook for students, for the course that I loved most in my fourteen years of study. I see that what has arisen is a tutorial, no doubt, but in the process something about myself seems to have entered it. Now I see that the true originality of this book lies not so much in the construction of a new theory or contribution to our empirical knowledge, but in the way of thinking about development and the way to convey these thoughts to those who are young, intelligent, caring and impressionable. If a harder bitten scientist learns something like an over-product that would be very welcome indeed. My commitment as an author is this: armed with some minimal background in economic theory and statistics, and a healthy dose of curiosity, empathy and interest, if you carefully study this book, you will walk away with a provocative and interesting introduction to the development economy, as is practiced today Put the other way, although this book offers (as all honest books in the social sciences do) a few unambiguous answers he'll teach you how to ask the right questions. 1 Third World, a group of low-income countries united by common economic characteristics and often a common history of colonialism, is as political as the economic concept. A number of international organizations, such as the World Bank, have narrower economic classifications. The composite index, which goes beyond per capita income, is described in the Human Development Report (United Nations Development Programme (1995). which are called boxes, will be disconnected from the text by horizontal rules. Chapter 2 Economic Development: An Overview of Economic Development, I refer simply to the problem of taking into account the observed model, in different countries and at levels and rates of growth in per capita incomes. It could too narrow a definition, and perhaps it is, but thinking about the structure of income is sure to involve us in thinking about many other aspects of society too, so I would suggest that we do not judge the scope of this definition until we have a clearer idea of where it leads us. - R. E. Lucas (R. E. Lucas) should never lose sight of the ultimate goal of exercise, treat men and women as goals, improve people's living conditions, expand people's choices... Unity of interest would exist if there was a strong link between economic production (measured per capita income) and human development (reflected by human indicators such as life expectancy or literacy, or achievements such as self-esteem, which are not easy to measure). But these two sets of indicators are not very closely related. P. Streeten (1994) 2.1. The introduction of economic development is the main goal of most countries of the world. This truth is accepted almost without controversy To increase the income, well-being and economic opportunities of peoples around the world is easily the most important social task facing us today. Each year, assistance is provided, investments are made, policies are developed and complex plans are developed to achieve this goal, or at least to move closer to it. How do we identify and monitor the results of these efforts? What characteristics do we use to assess a country's development or how developed or underdeveloped a country is at any given time? In short, how do we measure development? It is not easy to solve the problem. We all have intuitive ideas about development. When we talk about a developed society, we see in our minds a society in which people are well fed and well dressed, have access to various goods, have the luxury of some entertainment and entertainment, and live in a healthy environment. We think of a society free from violent discrimination, with a tolerant level of equality, where the sick receive adequate medical care and people do not need to sleep on the sidewalks. In short, most of us will insist that the minimum requirement for a developed country is that the physical quality of life should be high and so uniform, not limited to a ridiculously rich minority. Of course, the notion of a good society goes further. We can emphasize political rights and freedoms, intellectual and cultural development, family stability, low crime rates and so on. However, a high and equally affordable level of material well-being is probably a prerequisite for most other types of advancement, besides being a worthy goal in itself.1 Economists and policy makers are therefore doing well (and have to do!), focusing only on this aspect. Of course, it is tempting to assume that the state of material well-being of the nation's nation quite accurately in the gross national product per capita (GNP): the value of the final goods and services produced by the people of the country during a certain year. Indeed, since economic development at the national level was accepted as a conscious goal2, there have been long-term phases in which development indicators have been judged solely on the criterion of per capita gross domestic product (GDP) growth. Over the past few decades, the practice has come under increasing fire from various quarters. The discussion continues, as the quotes at the beginning of this chapter show. We have to be careful here. No one in their right mind will ever propose to define economic development in determining the level or growth of per capita income. It may be generally accepted that development is not just about income, although income (economic wealth, more generally) has much to do with it. For example, we have noted before that economic development should not be confined to a small minority. This means, in particular, that development is also the elimination of poverty and malnutrition: it is an increase in life expectancy; It is access to sanitation, clean drinking water and health care; It is a reduction in infant mortality; it is an increase in access to knowledge and schooling, and in particular to literacy. There are many criteria. Paul Streeten's thoughts, summarized in a quote at the beginning of this chapter, captured this multidimensionality very well. Much more intriguing is Robert Lucas's sharp attention to the word (see quote). At first they seem narrow, perhaps even missing the moment, while the more holistic scenario outlined in the above paragraphs seems to be pretty much the way to go. Thinking about it, we would be wrong. Neither Lucas nor any intelligent person believes that per capita income is development. What is hidden in these words is actually an approach, not a definition. It is indeed a belief in the world that the universal traits of economic development - health, life expectancy, literacy and so on - are somehow naturally followed by per capita GNP growth, perhaps over time. The implicit belief here is the strength of aggregate economic forces to positively influence all other socio-economic outcomes that we want to associate with development. This prediction can be countered by the view that the correlation between GNP and other desired functions is not automatic and that in many cases such compounds may not be present at all. According to this view, per capita GNP is not an adequate overall measure and should be supplemented by other indicators directly. The discussion implied in these two quotations is not what development means, on which perhaps there is Consent. It's really about looking at the world- about find a smaller set of variables that correlates well with the multifaceted development process. Note that, in a sense, talking too much says too little. Per capita income may not reflect all aspects of development, but the strong assertion that no small set of variables ever reflects the complex nature of development and that other considerations always exist is not very helpful. In this sense, the notion that economic development is ultimately fuelled by per capita income may go too far, but at least it has the power to try to reduce the broader set of issues to a smaller set using economic theory. This book implicitly contains abbreviation as well, though not all the way to per capita income alone. In part, the very consideration of space requires such a reduction. What's more, we have to start somewhere, so we focus implicitly on understanding the two sets of connections throughout this book. One is how average levels of economic achievement affect development. Of course, this should include an analysis of the forces that, in turn, lead to an increase in average levels (e.g. GNP per capita). Another link is how the distribution of economic achievements between the citizens of a country or region and between countries of the world affects development. Understanding these two broad relationships leads us on a long journey. In some chapters relationships may be hidden in detail, but they always are: levels and distribution as two beacons to guide our inquiry.3 This does not mean that the main features of development will be ignored. Studying them is our main goal, but our approach to them lies across the two routes described in the previous paragraph. We then begin with a brief account of the historical experience of developing countries over the past few decades. We will pay attention to per capita income, then income distribution, and then look at other indicators of development. We then try to understand how these diverse characteristics of development correlate with a smaller set of features: income level and distribution. This chapter concludes with a review of the structural characteristics of developing countries. We describe the professional distribution of the population, the share of different sectors (such as agriculture and services) in national income, the composition of imports and exports, and so on. 2.2. Income and growth 2.2.1. Measuring low per capita incomes is an important feature of economic backwardness, perhaps the most important feature, and there is no doubt that the distribution of income between the world's countries is extremely uneven. Per capita incomes, of course, are expressed in takas, reals, renminbi and many other world currencies. To facilitate comparison income (in local currency) is converted into a common currency (usually U.S. dollars) and divided by the population of that country to reach per capita income. This conversion scheme is called the exchange rate method because it uses exchange rates between local and common currencies to express income in the total unit. The World Development Report (see, for example, the World Bank (1996) contains such estimates of per capita GNP per country. has a per capita income, almost 400 times more than Tanzania, the poorest country in the world. Figure 2.1. Per capita income and population in individual countries. Figure 2.1 shows data on per capita incomes for individual countries. This figure contrasts with per capita incomes in different countries with populations in these countries. There are no comments. The differences are enormous, and no fine-tuning of measurement methods can get rid of the stark inequalities with which we live. Nevertheless, both in order to better understand the extent of the international differences we are talking about and to analyse these figures more reliably, it is best to recognize from the outset that these measures provide biased assessments of what is actually there. (1) First, under-reporting is not uncommon in developing countries. Since tax collection systems are not as effective as those in industrialized market economies, there is more incentive to undervalue income or output for tax purposes. National accounts also cannot be comprehensive. [4] In addition, the share of income actually generated for self-consumption in developing countries is relatively high. As we will soon see, the proportion of the population living in the rural sector in developing countries is high. Many of these individuals are natural farmers who grow crops that they themselves consume. Such findings may not be properly reported. While we can make educated guesses about the extent of undervaluation involved, there is really very little we can do about fixing the problem. (2) A much more serious problem is the fact that the prices of many goods in all countries are not adequately reflected in exchange rates. This is only natural for goods and services that are not traded internationally. Exchange rates are only prices, and these levels depend only on commodities (including capital) that cross international borders. Prices for non-traded goods such as infrastructure and many affect exchange rates. The interesting thing is that there is a systemic way in which these untraded prices are related to the level of development. Since poor countries are poor, it can be expected that they will have relatively low prices for non-traded goods: their lower real incomes are not enough to bring these prices to the international level. However, the same logic implies that converting all income into U.S. dollars through exchange rates underestimates the real incomes of poor countries. This can be corrected to some extent, and in some data sets it has been. The Heston-Summers dataset is most widely used (see insert). The World Bank has recently begun to publish income data in this revised format. Measuring purchasing power parity of income: The International Exchange Rate-based GDP Comparison Programme estimated that Asia's weight in world production fell from 7.9 per cent in 1985 to 7.2 per cent in 1990, and yet Asia was the fastest growing region during this period[5]. During the same period, there was also a sharp decline in the exchange rates of some Asian countries against the dollar. Now does this tell us something about the drawbacks of GDP exchange rate estimates? In an attempt to correct such anomalies, two economists from the University of Pennsylvania, Alan Heston and Robert Sammans, created a new data set called Penn World Tables (PWT; also called the Heston-Sammans dataset). It consists of a set of national accounts for a very large set of countries dating back to 1950, and its unique feature is that its records are denominated in a set of international prices in the common currency. Thus, international GDP comparisons can be made between countries and over time. In fact, the problems with market exchange rates for GDP calculations are not so much that they fluctuate, but that they do not hesitate around the correct average price if the right should be measured by purchasing power. Even if exchange rates equalize the prices of goods traded on the international market over time, there remain significant differences in the prices of non-traded goods and services, such as housing and domestic transport. These prices need to be fixed as well. The most ambitious effort to date to assess the correct international prices is the United Nations International Comparison Programme (IPS), which annually, between 1970 and 1985, conducts detailed price comparisons for one of the landmark countries. In addition to domestic price data, the procedure also provides for the use of national account expenditure data. PWTs were based on SME data. As a first step, SMEs collect detailed price data for 400 to 700 items in each of the benchmark countries. The price of each item is divided into the corresponding price in States, which gives a relative price. These elements are then then one of 150 categories of expenditure (110 categories of consumption, 35 investments and 5 categories of public expenditure). The averaging procedure results in an average relative price for each category, resulting in 150 relative prices (or price pars) available for each country. Further, the costs in the national currency pijqij (i.e. the amount of price time for each item I have in each country benchmark j) for each of the 150 categories is obtained from each country. This is used to estimate the volumes involved in national production. How is it done? Dividing costs for each category by relative price, i.e. (Pijqij)/(Pij/PUs), estimates the number in the category priced at the corresponding American price, qijpUs. Note that you can make international product comparisons simply by using these quantities priced at US prices. However, prices in the U.S. do not in themselves reflect the tastes of all countries, so we still have to build international prices to estimate these volumes. To do this, we have 150 categorywise relative prices for each country. For each category, the international relative price is derived by aggregating the relative price for this category for all benchmark countries based on the method proposed by R.K. Geary's statistician. The method is that the international relative price received for any product is a weighted average weighted average relative price of this product in all countries of the set. Thus, the international price for any product may differ from the domestic price of the country. For example, since food is cheaper in a rich country than in a poor country, international food prices tend to be higher than domestic prices in a rich country. At the same time, the international investment price is lower than in a rich country. Volumes previously derived from expenditure data are now estimated at international prices, which gives the value of national production at these prices. Purchasing power parity (PPP) for any country is the ratio of its expenditures in the national currency to the international price value of its products. From the set of PPP orientation countries for other countries, they are extrapolated through price surveys in capitals conducted by other agencies. Once a full set of PPP is established, extrapolations will be made to the value of GDP of the entire set of countries over other years between 1950 and 1988. For example, the WGDO (i.e. real GDP for other years, using the international prices of 1985 as the price of the base year) is extrapolated on the basis of the growth rates of different economies, and CGDP (calculated nominal GDP for other years at international prices in those years) is calculated using price indices and current national price accounts for these years. In addition to GDP data, PWT also offers inventory data individual countries and demographic demographics In the revised PPP-based GDP calculations, Asia's share of world production jumped from 7 per cent to 18 per cent in 1990. China is the third largest economy in the world, and India is the fifth largest. The United States remains the world's largest economy. Figure 2.2. The eight largest economies in the world: exchange rate and PPP calculations. Source: World Development Report (World Bank (1995). While Summers-Heston data are useful for real comparisons, remember that exchange rate data are appropriate for use for international financial transactions and capital flows. say in dollars) for every such product and service in all countries. The country's national income is then assessed by assessing its products at these international prices. Thus, in a sense of average, purchasing power parity between different countries remains. Thus, we call such PPP assessments, where PPP stands for purchasing power parity. PPP estimates of per capita income in some part are aimed at reducing the striking disparities in the global income distribution, but certainly not all the way. To take into account how PPP estimates are changing the distribution of global income, consult with figure 2.3. The direction of change is clear and, as the above-mentioned discussion suggests, one can only expect. Measured in PPP dollars, developing countries are better than U.S. per capita GNP, although factions are still small to be sure. This situation reflects the fact that domestic prices are not properly reflected by exchange rate conversions, which are only properly applied to a limited set of traded goods. (3) There are other subtle measurement problems. Measuring GNP, even if it explains the exchange rate problem, uses market prices to compare apples and oranges; that is, convert highly disparate goods into common currency. The theoretical rationale for this is that market prices reflect people's preferences as well as relative deficits. Therefore, such prices represent an appropriate conversion scale for use. There may be a few objections to this argument. Not all markets are completely competitive; not all prices are completely flexible. We have monopolies, oligopoly competition and public sector companies[6] that sell at dictated prices. The Government is spent on bureaucracy, on military or space research, the monetary value of which may not reflect the true value of these services to citizens. Also GNP measures ignore the costs associated with external factors such as the cost of associated pollution, pollution, damage, resource depletion, human suffering as a result of displacement caused by development projects such as dams and railways, and so on. In all these cases, the prevailing price does not reflect the true marginal social value or value of a commodity or service. Figure 2.3. PPP in relation to the exchange rate of GDP for ninety-four countries, 1993. Source: World Development Report (World Bank (1995). And to a large extent it is done by complex GDP indicators. at least in industrialized countries. However, it is important to be aware of these additional problems. With that in mind, let us take a quick look at the recent historical experience. 2.2.2. Historical experience over the period 1960-1985, the richest 5% of the world's countries received an average per capita income per capita, which is about twenty-nine times higher than the poorest 5 per cent. As Parente and Prescott rightly observed, the interstate disparities in the United States have not even come close to these international indicators. In 1985, connecticut was the richest state in the United States, and Mississippi was the poorest, and the per capita income ratio was about 2! Of course, the fact that the richest 5% of countries have roughly the same income ratio (compared to the poorest 5%) during this twenty-five-year period means that the entire distribution has remained stationary. The greatest interest, and continues in the nineties, is the rapid growth of East Asian economies: Japan, Korea, Taiwan, Singapore, Hong Kong, Thailand, Malaysia, Indonesia, and, more recently, China. Between 1965 and 1990, per capita income in the eight countries of East Asia (excluding China) increased by 5.5 per cent annually. Between 1980 and 1993, China's per capita income grew at an annualized rate of 8.2%, which is truly phenomenal. Across the dataset of the 102 countries studied by Parente and Prescott, per capita growth averaged 1.9% per annum between 1960 and 1985. By contrast, much of Latin America and sub-Saharan Africa languished in the 1980s. After relatively strong economic growth over the previous two decades, growth slowed to some time, and in many cases growth was not high at all. Morley's study (1995) notes that America's per capita income fell by 11% in the 1980s, and only Chile and Colombia had higher per capita incomes in 1990 than in 1980. It is certainly true that such caution should be taken into account the extreme problems of accurate GNP measurement in countries with high inflation, but they illustrate the situation fairly well. Similarly, in the 1980s, much of Africa stagnated or declined. Countries such as Nigeria and Tanzania have experienced significant declines in per capita income, while countries such as Kenya and Uganda have had little per capita decline. A diverse growth experience like these can change the face of the world in a couple of decades. One easy way to see this is to study the doubling of the time implied in these growth rates; that is, the number of years it takes for incomes to double if they grow in some way. The calculation in the footnote shows that[7] a good approximation to the time of doubling seventy is divided by the annual growth rate expressed in percentage terms. Thus, the East Asian country, growing by 5% per year, will be doubling its per capita income every fourteen years! In contrast, the country is growing at 1% a year it will take seventy years. Growth percentages look like small numbers, but they add up very quickly over time. The diverse experience of countries requires explanations, but this requirement is ambitious. Perhaps no explanation can explain the diversity of historical experience. We know that in Latin America the so-called debt crisis (discussed in more detail in Chapter 17) has caused enormous economic hardship. In sub-Saharan Africa, low per capita growth may be largely due to unstable government and subsequent destruction of infrastructure, as well as recent high population growth rates (see chapters 3 and 9). The high successes of East Asia have not been fully understood, but the combination of far-sighted government intervention (Chapter 17), relative to equal distribution of domestic income (chapters 6 and 7) and vigorous access to international markets has played an important role. As you might point out from the random bracket in this paragraph, we will be taking these topics, and many others, into chapters in the future. Thus, the global distribution of income is quite possible to remain in relative terms, while there is a lot of action within this distribution as countries rise and descend the ladder of relative economic achievement. Indeed, the few countries we have cited as examples are no exception. Figure 2.4 contains the same exercise as Chart 10 in Parent and Prescott (1993). It shows the number of countries that experienced changes in income (compared to the United States) of different values during the 1960s and 85s. Figure 2.4 points to two things. First, a significant proportion of half) of countries changed their positions compared to the United States by an average of one percentage point or more per year between 1960 and 1985. Second, the figure indicates that there is a rough symmetry between upwards and downward changes, which partly explains the fact that you don't see much movement in the global distribution taken as a whole. This remark causes great hopes and some trepidation: first, because it tells us that there are probably no pitfalls for ultimate economic success, and the second, because it seems too easy to slip and fall in the process. Economic development is probably more like a treacherous road than a divided highway, on which only a privileged minority is destined to ever drive on a fast lane. Figure 2.4. Annual percentage changes in PPP income in different countries compared to U.S. levels, 1960-1985. Source: Penn World Tables. This last statement should be taken with some caution. While there seems to be no evidence that very poor countries are doomed to perpetual poverty, there are some signs that low incomes are very sticky. While we will be much more concerned about the hypothesis of the final convergence of all countries with the general standard of living (see chapter 3-5), an illustration may be useful at this stage. Kwach (1993) used per capita income data to build mobility matrix for countries. To understand how these matrixes work, let's start by converting all per capita income into a share of world income per capita. So if the per capita income in Country X is $1,000 and the world average is $2,000, we give the country an X index of 1/2. Now let's create categories that we'll put each country in. Kwa used the following categories (you can certainly use others if you like): 1/4, 1/2, 1, 2 and ∞. For example, the category with the label 2 contains all countries with indexes from 1 to 2; Category 1/4 contains all countries with indexes of less than 1/4; the oo category contains all countries with indexes exceeding 2, and so on. Now imagine doing this exercise for two points of time, in order to find out if a country is transiting from one category to another during that period. You'll generate what we might call the mobility matrix. Chart 2.5 illustrates this matrix from 23 years 1962 to 1984 using the Sammans-Heston dataset. The lines and columns of the matrix are exactly the categories that we just described. Thus, the cell of this matrix defines a couple of categories. What you see is the number in each of these cells. Look, for example, at record 26 in a cell defined by categories 1 (series) and 2 (column). This record tells us about the percentage of countries that have transitioned from one category to another within twenty-three years. Thus, in in 1962, 26 per cent of countries that were between half the world average and the world average were between the global average and twice the global average. The matrix built in the way gives you a pretty good idea of how much mobility there is in relative GNP per capita in different countries. A matrix with very high numbers on the main diagonal, consisting of these special cells with the same categories of rows and columns, indicates low mobility. According to such a matrix, countries that start in a certain category are highly likely to stay right there. Conversely, a matrix that has the same numbers in each entry (which should be 20 in our case 5 and 5, given that the numbers must add up to 100 along each row) shows an extremely high level of mobility. Regardless of the starting point in 1962, such a matrix would give you an equal chance of being in any of the categories in 1984. Figure 2.5. Income mobility, 1962-1984. Source: Kua (1993). With these observations in mind, continue to look at Figure 2.5. Note that middle-income countries have much greater mobility than the poorest or wealthiest countries. For example, category 1 countries (between half the world average and the world average) moved right and left in 1962, less than half of them staying where they were in 1962. In contrast, more than three quarters of the poorest countries (category 1/4) remained where they were in 1962, none of which had gone above the world average by 1984. Similarly, 95 per cent of the richest countries in 1962 remained where they were in 1984.[8] It is interesting because it suggests that while anything is possible (in principle), a history of backwardness or extreme poverty puts countries at a huge disadvantage. This find may seem trivial. Poverty should feed on itself and so should wealth, but on reflection you will see that it really is not. There are, of course, many reasons to believe that historically low incomes can be beneficial for rapid growth. New technologies are available in more developed countries. Capital reserves are low compared to the workforce in poor countries, so the marginal product capital may well be high. In retrospect, there are some advantages to enjoying: you can learn success stories and avoid the policies that have led to past failures. This account does not mean that the previous empirical find is inexplicable: it is simply to say that a priori guess does not give simple answers. We'll have a lot more to say on this topic throughout the book. There is actually a little more to drawing 2.5 than lack of mobility at extremes. Look at the next to the poorest category (those with incomes from one-quarter to half the average in 1962). By 1984, 7 percent of those countries were transiting for incomes above the global average. However half of them have fallen to an even lower category. Thus, it is not only the lowest-income countries that may find themselves in a very difficult situation. In B at low income levels, the general trend appears to be downward movement. To sum up, we have the following observations. (1) Between 1960 and 1985, the relative distribution of world income appears to have been fairly stable. The richest 5% of the world's countries had an average per capita income of about 29 times the rate for the poorest 5%. By any standards, this inequality is staggering, and especially when we remember that we are talking about incomes that have been corrected for purchasing power parity. (2) The fact that the overall distribution remains unchanged does not mean that there is virtually no movement of countries in the world distribution. Of particular interest in the 1980s is the growth of East Asian economies and languishing in other countries, particularly in sub-Saharan Africa and Latin America. Various growth experiences like these can change the economic composition of the world within a few decades. However, one explanation for this diversity remains elusive. 3) The observation that a number of countries have changed their relative positions indicates that, in the end, there are no pitfalls for development. At the same time, the history of wealth or poverty seems to partly predict future events. The mobility of countries appears to be the highest somewhere in the middle of wealth distribution, while a history of backwardness or extreme poverty seems to put countries at a disadvantage. (4) This story matters in a way that is observation that requires a thorough explanation. Poor countries seem to have some advantages. They can use, relatively free, technologies that are developed by their richer counterparts. Capital deficits in these countries should result in higher profits because of the law on lower profits. They can learn from the mistakes made by their predecessors. Thus, the differences between countries should smooth themselves over in the long run. Thus, the observation that history matters to preserve the persistence of the differences requires more justification than may be obvious at first glance. 2.3. Income distribution in developing countries International inequality of national income is just one sign that something is fundamentally linked to global development. Add to that the striking disparities seen in each of the vast majority of developing countries. It is commonplace that vast wealth coexists with great poverty, and nowhere is this more evident than on the streets of Bombay, Rio de Janeiro is not that such inequality does not exist in developed countries - they certainly exist, but in combination with low middle incomes developing these are these lead to visible poverty and poverty. We'll have a lot more to say on the topic of income distribution later in this book (see especially chapters 6 and 7). As a review, however, it is useful to feel the magnitude of the problem by looking at some data.[9] Figure 2.6 summarizes recent information on inequality for individual countries covering the range between the poorest and richest.[10] This figure captures the share of incomes of the poorest 40% of the population, as well as the share of income of the richest 20% of the population. Simply setting out the data, you can see that the poorest 40% of the population earn on average about 15%, perhaps less than the total income, while the richest 20% earn about half of the total income. While there are many differences around these averages (see subsequent discussion), this is a big discrepancy. Remember, in order to understand how this inequality affects the poorest in each country, we need to exacerbate this intracountry inequality by the cross-country difference that we have already talked about. The poor are cursed twice: once for living in poor countries on average, and then again for being on the receiving end of high levels of inequality in these countries. Figure 2.6 also shows tentative trends in these proportions as we move from poor to rich countries. There appears to be a tendency to development economics debraj ray pdf free download. debraj ray development economics pdf download. development economics debraj ray 1998 pdf download