

Part One

Principles and Concepts

Chapter 1

Economics, Institutions, and Development: A Global Perspective

■ Key Concepts

It is easy to forget that students (especially in rich countries) may have a limited understanding of how life in the developing world differs from life in the developed world. The first main point of Chapter 1 is to drive this idea home, while also introducing through examples of debt crises and oil shocks, the idea that the world is becoming increasingly interdependent and that actions taken in the developed world can have a profound impact, for better or worse, on the developing world.

The second point is to provide an overview of the nature of development economics as a field. A defense of development economics as a distinct field, rather than an agglomeration of other economics subfields, is offered. A major theme of the book, that development economics must encompass the study of institutional and social, as well as economic, mechanisms for modernizing an economy while eliminating absolute poverty, is introduced.

The plan of the book is introduced through a series of 27 basic questions of development economics. Depending on the amount of material covered by the instructor, students should be able to intelligently address most of these questions by the end of the course.

Alternative meanings of development are offered, starting with the ability to achieve sustained increases in GNP, and expanding to include other indicators of the quality of life including absolute poverty, inequality, freedom, and self-esteem. This is closely tied with the discussion of Sen's "Capabilities" approach, first introduced in the 7th edition. Further, the new edition talks specifically about happiness in the context of economic development, relating the level of happiness not only to level of income but to other factors such as democratic freedoms and the quality of social relationships. The role of normative values in development economics—a subject dealing with human misery and human potential, with equity as well as efficiency, with cultural change that causes losses as well as gains, and with transfer as well as creation of wealth—is also stressed.

The conclusion is that development is both a physical reality and a state of mind. The meaning and objectives of development include the provision of basic needs, reducing inequality, raising living standards through appropriate economic growth, improving self-esteem in relation to the developed countries, and expanding freedom of choice in the market and beyond.

The new edition presents a more in depth examination of the UN's Millennium Development Goals (MDGs). This includes a more comprehensive list of the goals themselves (appearing in Box 1.2), a deeper look at the central role of women in the fight to eradicate poverty, and a discussion of the predicted failure to meet some of the goals based on current trends. Moreover, the Brazil case study at the end of the chapter has been revised and updated.

■ Lecture Suggestions

The diversity of the developing world is worth stressing not only for the benefit of American students, notorious for being a bit shaky on geography, but students in developing countries as well, who may be unfamiliar with developing regions other than their own. Students should know that the developing world is economically and culturally far more diverse than the developed world. You might make some summary observations, such as within the developing world, per capita incomes range by a factor of well over 100 (from Mozambique to Singapore), while South Korea has a per capita income about equal to that of Greece and about half that of Spain. Incomes in industrial economies range by a factor of only three. Interesting statistics can be found from sources such as the World Bank World Development Reports and the United Nations Human Development Reports.

Presenting a few maps and tables, or even a slide show if you take the time to develop one, can be a valuable way to refresh the student's memory on geography, highlight important differences between nations and regions, and provide an overview of development issues and problems. For the slide show you could select color graphics drawn from sources such as the United Nations Human Development Reports and World Bank World Development Reports, both of which are published annually. The art history department at many colleges and universities will have special equipment for making slides from prints. These graphics can be combined with a few representative photos of economic activities that you yourself, or a colleague, have taken in developing countries. The result is a presentation that maintains student interest and sets the stage for the issues covered in the course.

Some students have limited knowledge of historical events in the post World War II era, especially the events of the 1970s and 1980s. Some have little notion of oil price shocks, the external debt crises of the 1980s and the more recent Asian financial crises such as: what caused them, what effects they had around the globe, and how they underline economic interdependence. Touching briefly on these issues can make for a good introductory lecture theme.

In many universities, the economic development course will be filled with students who are not majoring in economics. These students may come from different colleges with major such as social sciences (anthropology, sociology, or political science) or the business college (management, finance, etc.) and may have had as little as one semester of introductory economics. Given that you are teaching an economics class, you may wish to remind the students of this fact. Economics provides an important framework for analyzing many of the important development problems and hence the class will draw on the students' knowledge of economics. You may also remind the students that traditional economics is in large the study of decision making under conditions of scarcity. You might use the first lecture to set the stage for the approach you will take, whether it will be more interdisciplinary, more economic, more mathematical and quantitative, more historical, or some combination. The first week or two of class will likely involve discussions of social, political, and institutional factors as well as economic factors.

Emphasize that development economics is a difficult subject to study and teach because it does not focus just on one country, but on all less-developed countries. Further emphasize that you will try to teach key concepts and ideas which can be applied to the experiences of many developing countries. These concepts and ideas are important for understanding where the developing countries are today, as well as what their options are for the future.

The 27 basic questions can be used to motivate student interest in the subject as well as present an overview of what the class is all about. It can be emphasized that there is no one answer to the general question of why some countries are more developed than others. There are as many different opinions on what a less developed-country should do to become more developed. A good approach is to present differing viewpoints throughout the course and let the students make up their minds on their own.

If you have developing-country experience, mentioning some of your own experiences with, “How the Other Half Live,” is a way of introducing the first chapter and really getting students’ attention.

■ Discussion Topics

Encouraging class participation is a good way to motivate the students and make them feel involved in the learning process. The first few weeks of class in particular are conducive to this sort of exercise. Two ideas for discussions at this stage are:

- What is the meaning of economic development? In what way(s) is economic growth different from economic development.
- Is it possible for the whole world to be developed? This can be an interesting question to ask at the beginning of the course and then again at the end of the course.

■ Sample Questions

Short Answer

1. Provide a definition of development economics. Justify your choice carefully.

Answer: See the section in Chapter 1 entitled, “The Nature of Development Economics,” on Pages 9–10 for some ideas about how the students might answer this question. They should in some way say that development economics is more than just growth in GDP.

2. In defining development to include more than just the growth of per capita income, there is an implicit assumption that the growth of per capita income alone is not sufficient to guarantee the reduction of poverty and the growth of self-esteem. Is it possible that there could be growth of per capita income without the achievement of these other objectives?

Answer: Per capita income can show growth even when that growth does not touch vast portions of the population. The growth may be centered in one area or sector of the economy for example. Also, most developed countries have, at some time in their histories, introduced policies emphasizing equity.

3. In what way is development economics greater in scope than traditional economics?

Answer: Development economics must encompass the study of institutional, political, and social as well as economic mechanisms for modernizing an economy while eliminating absolute poverty and transforming states of mind as well as physical conditions. More details found in the chapter.

4. Make a case that development economics might be merely a combination of all the other subfields of economics, only applied to low-income countries.

Answer: See Question 3 above.

5. What do you think are the most serious obstacles to further progress in the developing world?

Answer: The main point here is to ensure that students are thinking carefully about the issues raised in the text. You may also wish to draw from the critical questions on Pages 10–12.

6. In reviewing discussions of life in developing countries, what is it about lifestyles in the low-income countries compared with lifestyles in the high-income countries that most strikes you? Why?

Answer: This is an open-ended question to stimulate reflection.

7. It has been said that “underdevelopment is a state of mind.” Comment.

Answer: You may look for a discussion of the role of modern values in the development process, as on Pages 13–14 of the text.

8. Do you think it is in the material interests of high-income countries to help low-income countries improve their economic performance? Why or why not?

Answer: Answers might touch on increasing the market for products in which high-income countries have a comparative advantage, reducing the dangers of regional war and terrorism, reducing international transmission of disease, and curbing international migration.

9. How is happiness related to development?

Answer: Answers should make reference to the correlation between happiness and income level as well as touch on the connection between happiness and social relationships, personal and democratic freedoms, religious beliefs, and health, among other factors listed on Page 20. Further, answers should include a discussion on happiness as being a part of Amartya Sen’s concept of functionings.

10. What are the Millennium Development Goals (MDGs) and how did they come about? What do you consider to be the most important of these and why?

Answer: The answer should stress that the goals cover a broad range of objectives both economic and social. These were put forward so that developing countries would have numerical targets against which their progress could be judged and, where warranted, appropriate assistance offered. An interim assessment of the MDGs can be found at: www.unmilleniumproject.org.

11. Why are women often referred to as playing a central role in economic development?

Answer: An answer should include how women can influence whether or not the next generation will be impoverished through their role of childrearing based on the resources they bring to this task and the values they pass to their children. Another key point that should be mentioned is that empirically, women tend to allocate a higher percentage of the income under their own control to the family and children than men.

12. What are the most important characteristics that have shaped Brazil’s economic and social progress during the last three decades?

Answer: Discussion should include the large degree of income inequality, the need for land reform as a result of the dualistic nature of the land tenure system and the environmental challenge faced by what is one of the world’s most environmentally diverse countries.

■ Multiple Choice

1. Countries tend to be classified as more or less developed based on
 - a. the literacy rate.
 - b. the poverty rate.
 - c. the level of income per capita.
 - d. the types of goods they produce.

Answer: C

2. Which of the following demonstrates international interdependence?
 - a. the oil shocks
 - b. the debt crisis
 - c. global warming
 - d. all of the above.

Answer: D

3. A subsistence economy is
 - a. a very low income economy.
 - b. an economy in which people make what they consume.
 - c. an economy in which people receive food for pay.
 - d. all of the above.

Answer: B

4. Development economics is the study of the
 - a. alleviation of absolute poverty.
 - b. transformation of institutions.
 - c. allocation of resources in developing countries.
 - d. all of the above.

Answer: D

5. Development economics must have a scope wider than traditional economics because
 - a. values and attitudes play little role in the pace of development.
 - b. people in developing societies do less utility-maximizing.
 - c. transformation of social institutions is necessary for development.
 - d. all of the above.

Answer: C

6. A good definition of the meaning of development is the
 - a. elimination of absolute poverty.
 - b. improvement in the quality of life.
 - c. fulfillment of the potential of individuals.
 - d. all of the above.

Answer: D

7. Which of the following is not an important objective of development?
- a. increases in per capita income
 - b. the expansion of available choices
 - c. increases in individual and national self-esteem
 - d. all of the above are important objectives of development

Answer: D

8. The Millennium Development Goals include
- a. eliminating the proportion of people living on less than \$1 per day.
 - b. universal primary education.
 - c. increasing exports by one half.
 - d. all of the above.

Answer: B

9. The core values of development include
- a. increasing income per person.
 - b. reducing the inequality of income.
 - c. the ability to meet basic needs.
 - d. all of the above.

Answer: C

10. It is not possible for a country to experience
- a. economic development without economic growth.
 - b. economic growth without economic development.
 - c. economic growth and economic development simultaneously.
 - d. both (a) and (b) are correct.

Answer: A