Unit 7 Developed and developing economies: trends in production, population and living standards

Assessment: model answers

1
(a) i B
(a) ii C
(a) iii A
(b) Incomes, access to goods and services and, therefore, living standards will be generally higher for most people living in a developed country compared with people living in a developing or less-developed country.

A developed economy will usually have large modern efficient farms, a wide range of industries with firms of different sizes producing and selling a wide variety of goods and services, a well-educated workforce, high levels of employment and good quality housing, health care and sanitation. Legal protections for human rights and stable government are also features of developed countries.

In contrast, a less-developed economy has a relatively low level of economic development. Farming methods tend to be poor, sometimes providing scarcely enough food for a rapidly growing population to eat. There are few industries and very few firms producing and selling good-quality goods and services. Many live in poor housing conditions with poor sanitation, receive little or no education, have a low life expectancy and may even lack access to clean water. There is often widespread poverty and malnutrition in many of the least developed economies of the world.

However, some economies, such as China, India and Brazil, are undergoing rapid economic development but are yet to display the full range of characteristics of modern developed economies. Living standards have risen significantly for many but not for all and many people still live on very low incomes, sometimes less than $2 per day, in some rapidly developing countries.

Average income per head is often a key measure of living standards in an economy. The higher the average income the better living standards tend to be. Developed economies generally have much higher average incomes than other economies. However, economic development can also cause problems that can have a negative impact on living standards, for example increased congestion and pollution, more rapid depletion of natural resources and harm to wildlife and the environment. These factors can reduce economic welfare.

(c) Birth rates have fallen significantly over time in all developed countries and now remain at low levels. In some developed countries birth rates are below death rates so these countries’ populations are naturally declining.

One factor responsible for the fall in birth rates is the growth in female participation in the workforce in developed countries. Many women are now in full-time or part-time employment in developed countries. On average, people are also getting married later in their life than they used to. Both effects have reduced the birth rate.
Many working women may not wish to break their careers to have and to raise children. This could mean they lose out on promotion prospects. It will also mean the family income will fall. Children are also expensive to raise, especially if parents also have to pay for day-care facilities while they return to work.

(d) There are a number of factors that have caused birth rates to fall in developed countries over the last 50 years or so. Perhaps the most significant is economic growth, which has increased real incomes and living standards. Improvements in the quality and availability of food, housing, clean water, sanitation and medical care, resulting in fewer babies dying. Many years ago, many children would die before they could go to work and earn money to help their families. As a result, people often had large families in case some of their children died. As living standards have improved in many developed countries, fewer babies died and so people did not have as many children.

At the same time it has also become less fashionable and less socially acceptable to have large families. Associated with is has been an increase in the use of contraception. For example, a pill for women to take to prevent pregnancy was first introduced in the 1960s and is now widely available and used along with contraceptives for males.

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(a) Many developed countries have low, zero or even negative growth in their populations because their birth and death rates have fallen to very low levels. Both are the result of the quality and availability of food, housing, clean water, education, sanitation and medical care in developed countries. People tend to have fewer babies as living standards and education improves. Trends towards later marriage and increased female labour force participation in developed countries have also greatly reduced birth rates.

If the birth rate (new births per 1,000 people in the population) is lower than the death rate there will be a natural decrease in that population. Low birth and death rates in many developed countries are increasing the average age of their populations and increasing their dependency ratios. To counteract this, some countries are actively encouraging inward migration to boost their working populations and birth rates.

In contrast, many developing countries have rapidly expanding populations. This is because birth rates are significantly higher in these countries compared with rates in developed countries while their death rates have fallen due to improvements in health care and sanitation. Birth rates remain high in these countries due to high levels of poverty and a lack of education. Death rates among children remain relatively high so parents tend to have more to ensure the family is big enough to help them farm land or go out to work to earn money. Many people, particularly in developing countries, also hold religious beliefs that will not allow them to use contraception.

(b) Sometimes a government might try to limit the growth in the population of its country if a larger population will place too much strain on its available scarce resources. If there are more people to feed, clothe and house and no increase in the resources available to do so then living standards will fall and there could also be a food shortages resulting in malnutrition and death. For example, more farmland or woodland may have to be used to develop housing for people. Urban areas will expand and there will be more overcrowding and congestion. Natural resources will be used up at an increasing rate and little may be left for future generations.
Similarly, increasing levels of poverty will place more pressure on the government to fund poverty reduction measures. This will mean increasing taxes, which may cause further hardship, or borrowing more from overseas which will add to debt and incur additional interest charges the government will have to fund from tax revenues.

(c) As countries become more economically developed it is likely that the secondary sector of manufacturing and construction, and then the tertiary sector will grow in importance both in terms of their contribution of employment and output. The output of the agricultural and extractive industries sector may grow but will fall as a proportion of total output as the secondary and tertiary sectors expand. Mechanization of the agricultural sector and other extractive industries, including mining, will increase productivity but will also displace labour from these industries. There may be an absolute as well as relative decline in employment in the primary sector as a result.

The manufacturing and construction sectors are normally the first to expand. Low wages attract investment in basic manufacturing industries and urban areas expand as workers are attracted from farming communities to towns and cities to work in the growing number of factories. However, how much manufacturing and what types will often depend on what resources are available. For example, a rich source of iron ore will enable a country to develop an iron and steel industry, and if it has access to the sea a major shipbuilding sector that uses locally produced steel.

As national output and incomes rise, as a result the choice and availability of different goods and services will then tend to expand, particularly through retailing but then also involving financial and leisure services as incomes continue to rise and people start to save more and spend their money on entertainment.

(d) If the population of a country is ageing and the proportion of younger people is falling a government may have to increase spending on health care and state pensions. This may in part be paid for by savings in spending on education but it may also require increases in personal and corporate income taxes on the working population and firms. High rates of income tax and tax on profits can however harm employment and business incentives and lower productivity.

As the dependent population of retired people increases, either the productivity of the working population will need to increase to provide the goods and services they will need and want, or the working population will need to grow. If the population is not growing naturally then the government could encourage inward migration of working adults. However, this will increase demand for housing, education and welfare and in turn may place additional pressure on government finances. In some cases, tensions can also occur between different ethnic groups as a result.

In an attempt to control the impact the increase in the elderly population could have on future public spending, the government may introduce a number of measures to ensure people save more for their retirement, for example by introducing compulsory saving for pensions. If people are living longer it may also raise the official retirement age at which people are entitled to a government-funded pension. Publicly funded care services for the elderly may also be transferred to the private sector to encourage greater and more efficient provision without increasing the burden on the public purse.
(a) Income or GDP per head of the population in a developed country is likely to be much higher than income per head in a developing country. Living standards will also generally be much higher in a developed country as a result. The average age of the population of a developed country also tends to be higher than in a developing country. This is because birth and death rates in developed countries generally tend to be much lower than rates in less-developed countries. While improvements in medicine and sanitation have helped to reduce death rates in many developing countries, their birth rates remain high so their populations are increasing rapidly.

(Other factors may include differences in the occupational distribution; life expectancy; dependency ratios, extent of malnutrition; ownership of consumer goods; access to safe water supplies and sanitation.)

(b) GDP is a measure of the total value of output or income produced in an economy. More developed economies tend to have very large annual GDP. However, simply comparing GDP figures reveals very little about the living standards of people in different countries. First of all you need to allow for differences in exchange rates and then compare population sizes to calculate GDP per capita, or average income per head. A country with a large GDP but also a very large population may have a very low average income per head. Further, if population growth exceeds GDP growth average incomes and living standards will fall.

However, care must also be taken when comparing average income per person in different countries. Despite a country having a relatively high GDP per head compared with the figure in another country, if it also has a much higher rate of inflation then people living in that country will become relatively worse off over time as the real value of their incomes fall.

GDP per head also tells us very little about how evenly incomes are distributed. A country may have a relatively high GDP per head compared with GDP per head in another country but that income may be concentrated in the hands of relatively few very rich people while the vast majority of its citizens live on very low incomes. Living standards may be generally much better for most people in a country with a lower GDP per head but a more even distribution of income. A better measure therefore is to look at the number of people living in poverty, for example, by measuring how many people have to live on less than $1 or $2 per day.

GDP-based indicators also take no account of what and how much people can buy with their incomes. For example, people in a country with a relatively high average income may be no better off than people in another country with a lower average income if they lack access to many basic and other products and have to pay very high prices for them when they are available. Similarly, GDP figures provide no information on people’s access to health care and education, their security or the quality of their environment in different counties.

GDP also excludes unpaid work people do for charities or voluntary organizations, or which they carry out for themselves, their families or friends. These can affect living standards. As a result, GDP may underestimate total output and well-being in different economies.

(c) In many countries, not just developing ones, governments will often provide free or low-cost education for children and young adults because many people cannot afford to pay for their children to attend private sector schools. Governments have therefore taken the view that access to education should not be based on ability to pay. This is because education is a socially and
economically desirable good or merit good that helps people to become more informed and better skilled citizens who are able to participate more actively in the development of their country and in the labour force. Education therefore can increase the supply of skilled labour in a country, increase productivity and reduce poverty.

(d) Education is often viewed as a key driver of economic growth in a country. This is true in both developing and developed countries. In developing countries it can boost the supply of labour by teaching students skills they will need in work without which they will not be very employable. Education therefore helps to increase people’s chances of securing paid employment and earning a regular income. Workers with even basic skills will be more productive than those without. For example, if literacy levels are low then many people will find it difficult to read and follow instructions in a workplace.

Boosting the supply of usable labour in a country will have the effect of expanding its productive capacity. This means that country will be able to expand output and generate more income. Living standards will improve and absolute poverty can be reduced. Improvements in education can also improve people’s awareness and understanding of issues that affect their health, security and environment and take actions to address them.

As incomes rise, government tax revenues should rise and provide funding for new infrastructure projects, such as modern road and rail networks, that will help to develop the country further. It will also mean the government and the country can reduce a reliance on overseas aid and borrowing.

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(a) i The production of goods and services to satisfy people’s needs and wants involves the use of scarce resources. These include natural resources such as oil and land, man-made resources including machines and buildings, and human resources or labour. Some people also have enterprise, or the business skills needed to organize scarce resources successfully to produce goods and services.

Labour is hired by firms to produce goods and services in return for wages. The wage a worker will receive will tend to be related to the person’s skills and therefore productivity. An unskilled, poorly educated and/or unhealthy worker will not be very productive and may not even be able to work. Many people in many less-developed economies do not have access to basic education, training and health care that can help them become healthier, more productive and more innovative workers and entrepreneurs. That is, they lack good human resources.

(a) ii An economy that has a low level of economic diversification means it is over- dependent on one or a small number of industries to provide jobs and incomes. There are very few firms producing and selling goods and services, and they lack the capital they need to invest in building factories and the purchase of machinery and equipment to develop an industrial base. Road, rail and communication networks also tend to be underdeveloped and most people are poor.

For example, more people in less-developed economies work in farming than in industry or services compared with people in developed nations. Many produce only enough food for themselves and their families to live on and very little surplus they can sell to earn money. In some areas there has been over-farming and the land is no longer any good for growing crops because many people lack the basic skills and education needed for good farmland management.
(b) We cannot conclude from the statement that all people are poor in less-developed economies. We can only conclude that average income per head or per person is low. Some people may still be very rich while most others are poor. The article does not reveal how income and wealth is distributed between people in less-developed economies.

We should also look at the availability of goods and services in these economies and their prices. If prices are low then even relatively low or modest incomes may be able to buy sufficient goods and services to provide for a good standard of living. However, the article reports that less-developed economies generally have very low levels of economic diversification, which suggests many basic goods and services, including food products, health care and education, may not be generally available.

(c) The occupational distribution of an economy refers to its pattern of employment in different jobs. In developed economies most employees work in services, for example retailing and banking, rather than in manufacturing industries. Very few people work in agriculture and other primary industries like mining. However, this has not always been the case. Many years ago most people worked on farms before the development of industries attracted workers from the land into factories to produce goods and to earn incomes. Since then manufacturing industries in many developed economies have declined in terms of the number of workers they employ and their contribution to total output. As real incomes have increased in developed economies consumers have spent an increasing proportion of their rising incomes on leisure and other services. They also need more shops to buy goods and services, banks to keep their money in and to help them make payments, transport services to travel more, and so on. This has promoted a significant growth in output and employment in service industries.

In contrast, most people in less-developed economies still work in agriculture. Many less-developed economies lack an industrial base and healthy service sector due to the lack of a skilled labour force and generally low incomes. Because many workers in less-developed economies suffer from low levels of education and lack skills, industry is unable to employ them. Similarly, as incomes and therefore consumer purchasing power are low, there is little incentive for businesses to set up different shops and retail centres.

(d) We can examine and compare the population structure of a less-developed economy with a developed economy in terms of their age distribution, geographic distribution and occupational distribution. If a less-developed economy has undergone economic development and become a developed economy, we might expect the average age and life expectancy of the population to have increased, more people to be living in urban and city areas than before, and more people in paid employment in secondary and service industries than in primary industries such as agriculture and mining.

The age distribution of a population refers to the number of people, or percentage of population, in each age group. The average age of populations in many developed economies is rising due to falling birth and death rates. That is, on average, each year there are more and more middle-aged and older people, and relatively fewer younger people. In contrast, high birth and death rates in many less-developed economies means these economies have far more young people, and especially children, than older people. Average life expectancy from birth tends to be much higher in developed economies than in less-developed economies. Many people in the least developed regions of the world die relatively early due to malnutrition, poor sanitation, lack of access to health care, wars and famines.
The geographic distribution of an economy refers to where people live. Around 90% of the world’s population live in less-developed economies. However, population densities in these economies, or the average number of people per square kilometre, are generally quite low because the population is spread over a very large land area. This is because many people in less-developed economies work on the land to grow and farm the food they need. In contrast, many people in developed economies live and work in urban or city areas where they have access to good transport and communications, shops and other services. Around half of the world’s population lives in urban areas and this is likely to rise as the world population grows and more economies develop economically.

As an economy develops, the occupational distribution is likely to change significantly. From the answer to (c) above we know that far more employees in developed economies work in services, such as retailing and banking, than work in manufacturing industries. Very few work in agriculture. For example, over 75% of employees in the USA and in many European economies work in services. Self-employment and female employment in these economies is also high and rising.

The reverse is true of less-developed economies where most people, in many cases 90% or more, work in subsistence farming and agriculture, growing the food they need. As a less-developed economy develops its industrial base we would expect workers to move out of agriculture into paid manufacturing occupations and services, for the reasons discussed in the answer to question (c).