Topic 8 – Economic Growth, Economic Development

I can use my knowledge in Economics to assess economic growth, economic development and income distribution both within a country and between developed and less developed countries in light of the United Nations' Sustainable Development Goals (SDGs).

Section A – Understanding Economic Growth

Learning Outcomes:

1. Define economic growth.
2. Show how short-term economic growth is measured by year-on-year percentage increases in real GDP per capita.
3. Explain possible causes of economic growth in terms of an increase in the quantity and/or quality of the factors of production.
4. Show how long-term economic growth is represented by a shift of the production possibility curve.
5. Assess the possible limitations (threats / challenges) to economic growth.

Economic Growth refers to an ___________ in the country's annual output of goods and services over the previous year (__________) per capita.

GDP per capita – proportion of GDP per individual in the population.

GDP is measured by adding up total spending on goods and services of a country over a one-year period. This includes:

GDP =

Money GDP vs Real GDP

Money GDP is the euro value of the GDP of a country. Money GDP can rise for two reasons:

1. The output of the economy has increased. So, more goods and services are being produced and consumed.
2. The general price level of goods and services has increased.

So, economists are interested in **Real GDP** – the total value of goods and services produced in an economy which has been adjusted to take inflation into account.

The changes in Real GDP are important since they are often used to determine changes in the **standard of living**. Why would an increase in GDP due to rising prices not be considered as economic growth?

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Having said so, even though real output may have increased, it does not mean that people are better off (ie, a higher standard of living).

1. Depends on the types of goods and services produced.
2. Moreover, if total output increases but the population increases too, GDP per capita might decrease since output is shared amongst more people.

Exercise 1 – Calculate economic growth for the years 2016 to 2020 from the table below

Year	Real GDP (EUR 000s)	Population (000s)
2015	9,996,700	450.4
2016	10,310,998	460.3
2017	11,500,668	475.7
2018	12,206,623	493.6
2019	12,925,893	514.6
2020	11,862,303	516.1

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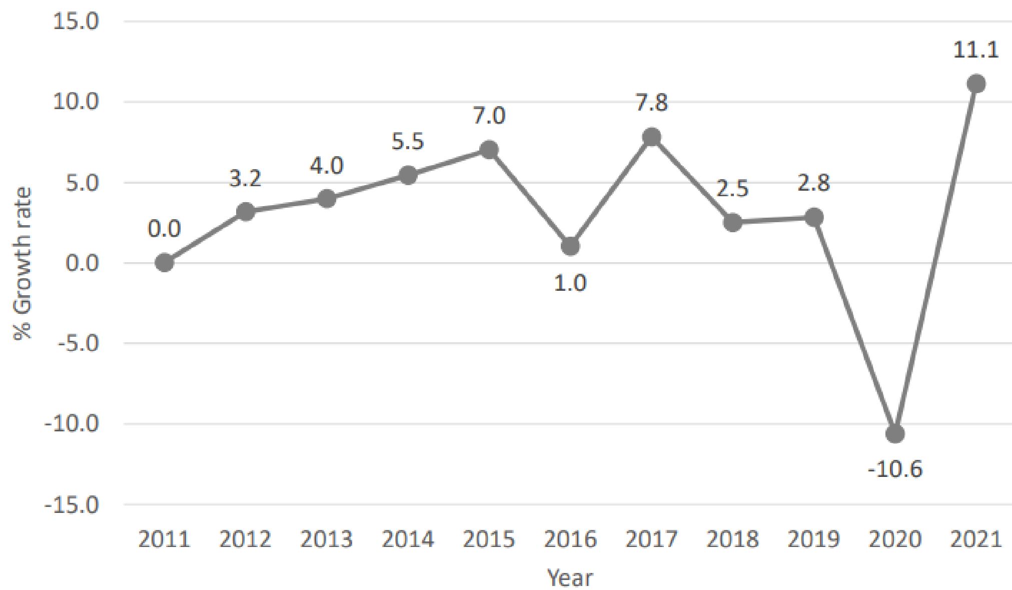
Exercise 2 – Calculate Real GDP for 2021 from the table below

The figure below shows Malta's economic growth rate across the past ten years from 2011 to 2021.



Year	Real GDP (€ 000s)	Population (000s)
2019	11,549,200	504.7
2020	10,552,800	515.9
2021	?	518.7

Types of Economic Growth

The Production Possibility Frontier - ____

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Economic Growth

Short-Run

Long-Run

Supply-side causes of Economic Growth

Short-Run Economic Growth

- This can be achieved by employing idle (unused) resources such as people out of work or idle capital, in the economy.
- It is a short-run growth because, if other things do not change, there will be no further growth once full employment has been achieved.

Long-Run Economic Growth (Shifts in the PPF)

- **Discovery of more natural resources** – discovery of natural resources would help an economy increase its output. However, this can be problematic for less-developed countries as the costs of searching for such natural resources makes it more difficult to even start.
- **Investment in capital** – Increasing investment in new capital (tools, machinery, factories) will lead to economic growth as it means that it has become easier for people to produce goods and services.
- **Technical progress** – Technology improves constantly leading to better production techniques, better management and organisation of firms, better transport and communication leading to economic growth – efficiency!
- **Increasing the amount and quality of human resources** – to achieve economic growth it is vital that the workforce is trained and educated in a way that increases productivity.
    - It is also important to have a well-functioning health care system so that we can have a healthy workforce with less sick days taken.
    - It also important to increase female participation.

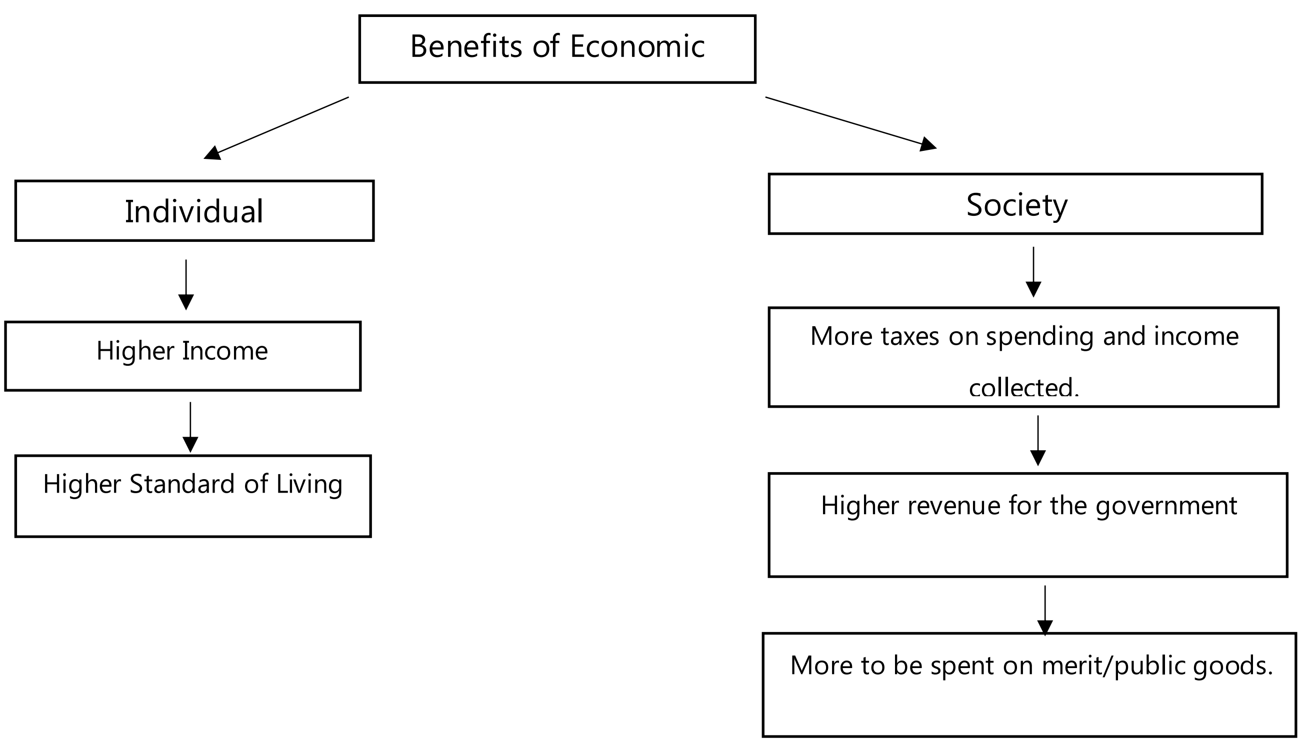
Demand-side causes of Economic Growth

Economic growth can be caused by a rise in aggregate demand. So, it can be summarised as shown below:

A rise in consumption.	• Expansionary monetary policy (lower interest rates - more borrowing, less savings, increased money supply) • Expansionary fiscal policy (increased government spending and income tax cuts) • Low unemployment – rising consumer incomes.
A rise in investment.	• Expansionary monetary policy (lower interest rates - more borrowing, less savings, increased money supply) • Expansionary fiscal policy (increased government spending and income tax cuts) • Higher consumer spending – increase in sales.
A rise in government spending.	• Increased government spending on areas such as education, healthcare and infrastructure. • Creation of jobs as a result of government spending, leading to higher incomes and consumer spending.
A rise in net exports.	• Economic boom in other countries that leads to a demand for exports. • Having a low inflation rate makes our goods more attractive in the eyes of foreigners – more exports.

Benefits of Economic Growth

1. Improvements in the Standard of Living
    - Economic Growth is desirable to increase the standard of living of the population.
    - People would have more goods and services to enjoy – more leisure time and work less hours.
    - Leads to an increase in employment and firms expand production.
2. Better Social Services
    - When real GDP per capita increases, the Government would be able to raise more revenue without increasing the rate of taxation.
    - People would be paying more tax because more wealth is generated – people are not worse off.
    - Government would be able to spend more on education, health, and other social services without anyone being worse off!



Effects of Economic Growth

(Be critical when presenting such arguments – are we better off???)

1. Social Costs
   - Economic growth may impose some heavy social costs on the community – pollution, noise, inconvenience, taking up space for parks and other recreational activities.
2. Opportunity Costs
   - Economic growth requires investment in capital goods leaving fewer resources for consumer goods production.
   - So, opportunity cost arises in terms of capital goods being produced at the expense of consumer goods.
3. Non-Replaceable Resources
   - There is a fixed amount of coal, oil and other valuable minerals, etc.... - can be easily exhausted!
   - This increases the costs of production as materials become increasingly scarce.
4. Unemployment
   - Technical progress may replace workers with machines so many people find themselves without work and unemployed for long periods of time.
5. Distribution of income becomes more unequal.
   - The gap between the rich and the poor widens in some countries.
6. Rising inflation
   - Economic growth is likely to lead to higher inflation due to increasing aggregate demand in the economy and higher costs of production.

Section B – Economic Development

Learning Outcomes:

1. Define economic development.
2. Distinguish between economic growth and economic development.
3. Analyse the impact of scarcity on less developed countries.

Economic development is the process by which the economic well-being and quality of life of a country are improved.

Living Standards

Living standards refer to the general economic wealth, wellbeing and quality of life of a country's population. There are two ways to measure living standards:

1. Real GDP per capita.
2. Human Development Index (HDI).

The HDI is a measure of human development that takes into account the three dimensions of living standards, health, and education.

Real GDP per capita

It is the real GDP of the country averaged across its population. It can be calculated using the following formula:

$$Real\ GDP\ per\ capita = \frac{Real\ GDP}{Population}$$

In general, the higher the GDP per head, the higher the living standards within a country. Real GDP per head is useful because it provides an indication of economic wealth and living standards of a population in a country. However, there are a number of limitation (see previous topic).

Human Development Index (HDI)

This is an alternative measure of living standards of the population of a country is provided by the human development index (HDI). The HDI is a broader measure of human development than real GDP per head. It measures a country's performance in three dimensions:

1. Health – measured by life expectancy.
2. Living standards – average income per person.
3. Education – measured by the number of years spent in school years.

Standard of Living VS Quality of Life

Standard of living refers to the level of wealth, comfort, and necessities of country. The richer the country the ________________ standard of living. The quality of life refers to the level of happiness in a country. Standard of living is more concerned with the material/tangible aspect whereas the quality of life focuses more on the intangible aspects of life.

The Standard of Living is measured using the **GDP per capita**. The GDP per capita figure alone does not paint an accurate figure of an economy's wellbeing as it only takes into consideration the materialist perspective.

The Human Development Index (HDI) is a tool that takes into consideration human happiness by incorporating three key dimensions of human development: health, education, and living standards. So, the HDI takes into account the quality of life and not just the productive capacity of a country.

The Characteristics of Developed and Less-Developed Countries

A

B

These pictures depict typical scenes from less-developed economies and developed economies. Compare and contrast the pictures and then identify the key characteristics of developed and less-developed economies and how they differ from each other.

The Characteristics of Developed and Less-Developed Countries

Kofi Annan defined a developed country as "one that allows all its citizens to enjoy a free and healthy life in a safe environment". The characteristics of a developed country are:

1. Has large modern farms.
2. Many firms producing a wide variety of goods and services.
3. A well-developed road and rail network.
4. A relatively healthy, wealthy, and educated population.

Examples of developed countries include: ____

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Less-developed/developing countries are countries which are becoming a little more prosperous. They are usually nations with problems. The characteristics of less-developed/developing countries are:

1. Farming methods are very poor.
2. Generally, people are poor and live in poor conditions.
3. Receive little or no education.
4. Hardly provide enough food for a growing population to eat.
5. There are very few firms producing other goods and services.
6. Have no/few access to clean water.

Four main reasons why an economy remains underdeveloped:

1. High population growth.

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2. A dependence on the production and sale of agricultural products.

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3. A poor infrastructure.

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4. Lack of capital.

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Based on the reasons above, explain three ways how scarcity is linked to economic development.

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Section C – Sustainable Development

Learning Outcomes:

1. State the three pillars of resource sustainability. economic development, social development and/or environmental protection
2. Show how resource sustainability could be achieved and/or the constraints that may prevent it occurring.
3. Give reasons to show that resource sustainability is an important environmental and economic goal.
4. List the Sustainable Development Goals. SDGs 1, 5, 8, 9, 10, 11, 13
5. Give reasons for the UN creating the Sustainable Development Goals (SDGs). (This is restricted to the SDGs as a whole and not to specific SDGs.)

Development refers to the process of growth that results in something developing. Development is an inevitable process in society that is in contact with other countries. Throughout history man has always tried to make life simpler, that is to, develop.

Sustainable Development can be defined as the way in which we, as today's generation satisfy our needs and wants, without making it difficult or impossible for future generations to achieve their needs and wants.

During the industrial revolution, progress and development were associated with the notion of economic growth with the assumption being that this will be of benefit to those most vulnerable and disadvantaged. However, this was not the case and income inequality has increased drastically (the gap between the rich and the poor). The idea that development based solely on economic growth is unjust and unsustainable, leading to more awareness on sustainable development.

There are three pillars of sustainable development:

1. Economic Development
2. Social Development - This pillar aims to enhance the quality of life for all members of society by promoting education, healthcare, and equitable access to resources. It also involves improving social equity and inclusion, ensuring that development benefits are distributed fairly and that all individuals have the resources they need to improve their standard of living.
3. Environmental Development - This involves managing natural resources wisely and protecting ecosystems to prevent degradation of the earth's natural environments and biodiversity. It stresses the importance of conserving natural resources and reducing pollution and waste.

Using Resources sustainably

Resource sustainability involves managing natural resources in a way that meets current needs without compromising the ability of future generations to meet their own needs. Some ways to achieve this includes investing in technology that improves efficiency, making use of sustainable resources, and by implementing the three Rs of sustainable development (Reduce, Reuse and Recycle).

Resource sustainability is vital for protecting our environment. It helps conserve biodiversity by safeguarding natural habitats and ecosystems. Sustainable practices also play a key role in fighting climate change by reducing greenhouse gas emissions. Additionally, maintaining healthy ecosystems ensures we continue to benefit from the essential services they provide, like clean air and water.

Economically, sustainable resource use supports long-term growth by ensuring that resources remain available for future generations. It can also lead to cost savings through more efficient use of materials and energy, and it can create new job opportunities in industries like renewable energy. Finally, by managing resources sustainably, we can avoid crises caused by resource shortages, which could harm economies.

However, achieving sustainability isn't easy. Economic pressures often push people and companies to focus on short-term profits rather than long-term resource care. Political challenges, such as weak governance or lack of commitment, can lead to poor enforcement of environmental laws.

Additionally, not all countries have access to the technology needed to use resources efficiently. Cultural resistance and global inequalities, where poorer nations feel forced to exploit resources to meet the demands of wealthier countries, can also hinder sustainability efforts.

<u>Sustainable Development Goals</u>

To know for syllabus (just list):

SDGs 1, 5, 8, 9, 10, 11, 13

The United Nations (UN) created the Sustainable Development Goals (SDGs) to address a wide range of global challenges and promote a more sustainable, equitable, and prosperous world for all.

The SDGs, adopted in 2015 as part of the 2030 Agenda for Sustainable Development, serve as a universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity by 2030. The aim of the SDGs is:

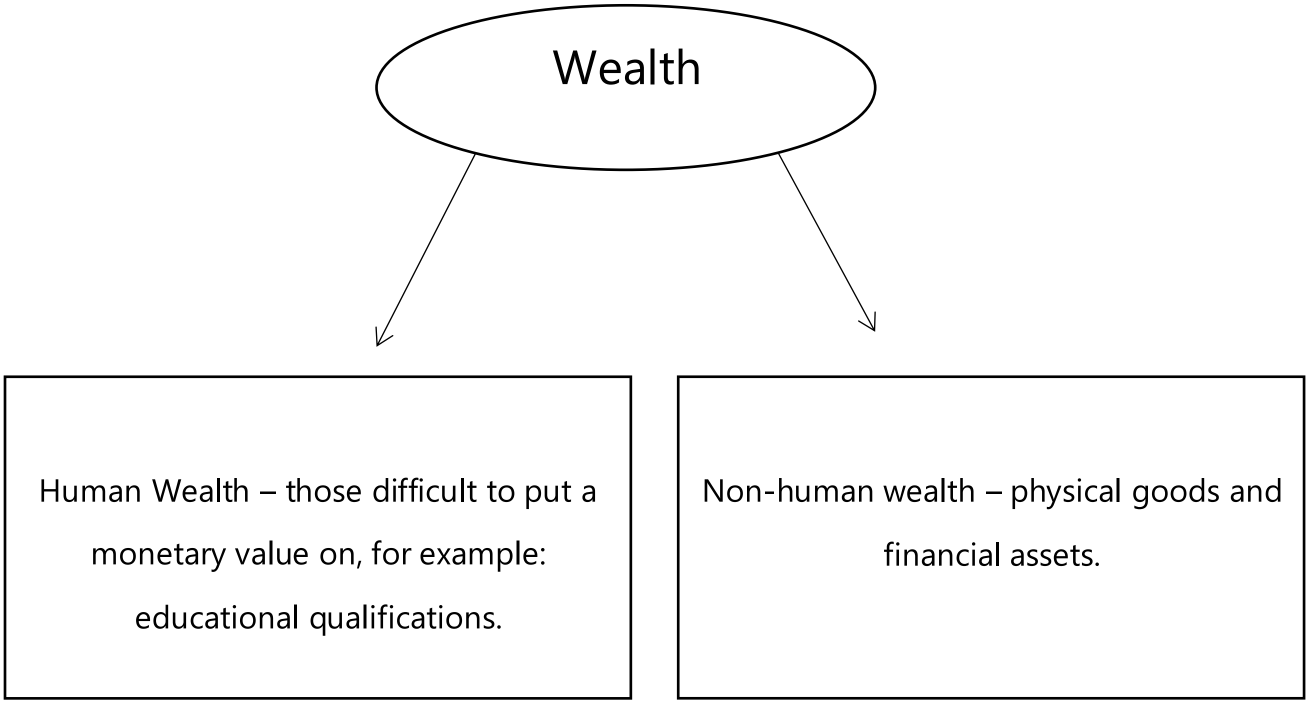
- Addressing Global Challenges in an Integrated Manner.
- Promoting Equity and Inclusivity.
- Encouraging Global Cooperation and Partnership.
- Responding to New Global Realities.

Section D – Income and Wealth

Learning Outcomes:

1. Define income and/or wealth.
2. Explain the relation of wealth to income and income to wealth.
3. Discuss the concept of uneven income distribution. (Excluding the Lorenz curve)
4. Analyse the impact of taxation and government spending on income distribution.
5. Discuss the concept of uneven wealth distribution. (Excluding the Lorenz curve)
6. Explain the effect of government policies in redistributing wealth properly and equitably, paying special attention to vulnerable categories. SDG 10

Wealth refers to the ownership of assets.



Income refers to flow of money earned by individuals.

<u>**Definitions**</u>

Wealth refers to the ownership of assets.

Human Wealth refers to the level of education and training, and work experience.

Non-Human Wealth refers to the ownership of physical goods and financial assets.

Income refers to flow of money earned by individuals

Gross Income refers to all income a person receives from all the sources of income before any deductions.

Disposable Income (Net Income) is the income a person has left after income-related taxes have been deducted.

For each scenario, determine what will be the effect on an individual's disposable income by ticking the correct column

	Increase Disposable Income	**Decrease Disposable Income**
An increase in income taxes		
A decrease in the National Insurance rate		
A decrease in income taxes		
An increase in the National Insurance rate		

The more disposable income a person has, the more the potential expenditure on goods and services.

Which businesses are likely to be most affected by an increase in income tax?

Businesses producing luxury goods.	☐	Businesses producing essential goods and	☐

The sales of four of these products are likely to fall following an increase in income tax. Sales of the other will not be much affected. Identify the four products likely to be most affected.

Products			
	Tick		**Tick**
Bread		Cooking oil	
Petrol		Jewellery	
TV		Salt	
Vacation		Home computers	

Uneven income distribution refers to the unequal allocation of income among individuals or households within an economy. It often results in a small proportion of the population earning a large share of the total income, while the majority earns significantly less. Uneven income distribution is mainly caused from wage differentials, such as

Taxation and government spending are powerful tools that governments use to influence how income is distributed among the population. By adjusting who pays taxes and how much, as well as deciding where to allocate public funds, governments can either reduce or increase income inequality.

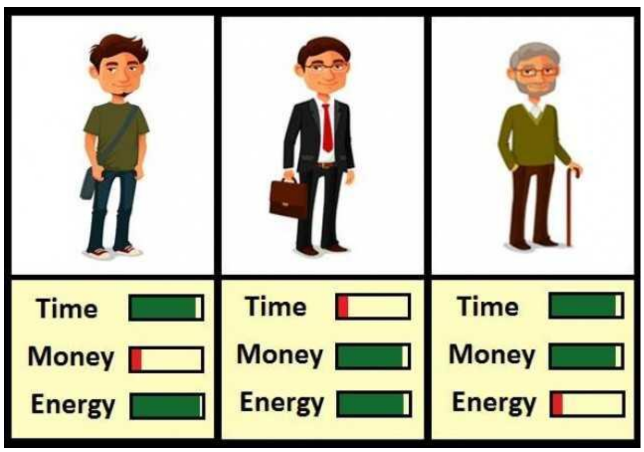
By carefully designing tax policies and directing spending towards services and programs that benefit lower-income individuals, governments can help reduce income inequality and promote a more equitable society. Tools to achieve income equality include:

1. Progressive Taxes
2. Government spending on merit goods

3. Provision of social security benefits

<u>Reasons for unequal distribution of wealth within an economy</u>

- Some people may have inherited wealth
- Differentials in wages and salaries may contribute towards uneven distribution of wealth, higher income people can accumulate more wealth
- People may not only be earning income from employments, but also
    - their wealth will be increasing in value asset-wise and
    - their wealth may be earning them additional interest thereby accumulating more wealth over time.
- Older people would generally own more wealth as they have been in employment for longer.



Government policies play a crucial role in redistributing wealth to achieve a more equitable society, particularly in line with Sustainable Development Goal (SDG) 10, which aims to reduce inequality within and among countries. How can we reduce wealth inequalities?

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