Tues 9/6

Chapter 1: Poverty

* Measures of Poverty:
  + Using the “International Poverty Line”: The precentage of the total population with per capita income of $1.90 per day or less (in constant, 2011, purchasing power parity (PPP) dollars). This is equivalent to just over $693 per year.
* Worldwide:
  + 42% in 1981
  + 10% in 2015
* See Table 1.1 for regional comparisons
  + China has almost eradicated poverty (from 66% in 1990 to less than 1% in 2015)
  + Sub-Saharan Africa still has high poverty rates (55% in 1990 and 41% in 2015)

Alternate Measures of Poverty

* Does earning an income just above $1.90 per day yearlly indicate that a person is no longer living in poverty?
* Try using $3.20 per capita income per day ($1,168 per year)
* Se results in Table 1.1 Part II
* Worldwide:
  + 57% in 1981
  + 26% in 2015
* See Table 1.1 for regional comparisons
  + China’s rate has dropped significantly (from 90% in 1990 to 7% in 2015)
  + Sub-Saharan Africa’s rate has not changes nearly as much (75% in 1990 and 67% in 2015)

Poverty Gap

* Poverty lines stats (like those above) provide a “head count” of those living in poverty, but indicate nothing about the extent of poverty for these individuals and families
* The “poverty gap” equals the additional amount of income that must be generated by a nation to bring everyone above the poverty line (measured as a percent of that nation’s income)
* See comparisons in Table 2
  + World:
    - 18% in 1981
    - 3% in 2015
  + Sub-Saharan Africa
    - 25% in 1990
    - 16% in 2015
  + China
    - 24% in 1990
    - Less than 1% in 2015

Growth and Poverty

* Will economic growth eliminate poverty?
* Or does it take economic policy to reduce poverty?

Societal Poverty Line (SPL)

* Poverty can be *relative*as well as absolute (World Bank, 2018)
* SPL = Max($1.90, $1.00+0.5\*MedianConsumption)
* See Table 1.3

The Latitude Theory

* Survival in the higher latitudes:
  + The “Latitude Theory” of Economic Growth

Life in a Cofan Village

* Hunting, gathering, fishing, gardening are traditional activities.
* Importance of leisure (make the money needed for necessities, then enjoy the rest of your day)
* Very different than “maximize your income” or “maximize your mortgage”. Instead, minimize the amount of work required in order to earn what is needed, then enjoy the rest of your week.
* Sharing
* Barter
* Informal Economy
* Equality as a social norm in indigenous society

Thurs 9/8

GNI and GDP

* Gross Domestic Product (GDP) equals the value of all final goods and services produced within a nation in a year.
* GDP = Consumption + Investment + Government + Net Exports
* Gross National Income is similar, but it alsos accounts for income flows due to remittances and other factors.
* If a nation receives large remittances, workers are leaving the nation to work elsewhere and sending money back to their home countries. In this case, GNI > GDP

Adjustments to GNI and GDP

* Population: It is common to calculate per capita (per person) GNI and GDP to make international comparisons. Simply deivide the total GNI or GDP by the population size.
* Price Changes: It is common to account for changes in the price level (inflation) when comparing GNU and GDP across time. “Real GANI and GDP” account for price changes, while “nominal” does not. For example, if *nominal* GDP increases by 6% in a given year and inflation is 2%, then *real* GDP has only increased by 4%.
* Internal Comparisons: It is common to account for differences between nations in the purchasing power of a dollar by adjusting GNI and GDP figures for local price levels. This is called Purchasing Power Parity (PPP).

Human Development Index

* Better ways to measure development of a country or culture through ways other than financial.
* Health
* Education
* Life Expectancy
* Healthcare
* Birthrates

The HDI

* Basic Idea: Income is not an adequate indicator of development
* Methodology: The HDI combines readily obtainable data on income, health and education into a single number.
* How to measure these using actual data? Use Proxies
  + 3 Components
    - Standard of Living: Income per capita
    - Health: Life expectancy
    - Knowledge: Years of schooling

Basic Methodology for HDI

* For each of the three components, create one statistic that is normalized (ranging from 0 to 1) using the proxy data
* Combine all three statstics using a geometric mean

Using HDI

Brackets are min and max for all countries – necessary for normalization.

Example: Ecuador in 2018

* Health:
  + Life Expectancy = 76.6
  + [min = 20, max = 85]
* Education 1:
  + Expected years = 14.7
  + [min = 0, max = 18]
* Education 2:
  + Mean years = 8.7
  + [min = 0, max = 15]
* Living Standard:
  + GNI PPP = $10,347
  + [min = $100, max = $75k]
* (X – min) / (max – min)
* (76.6 – 20) / (85 – 20) = 0.871
* Closer to 1 is healthier – longer life

HDI = (0.87 \* 0.70 \* 0.70) ^ 1/3 = 0.753