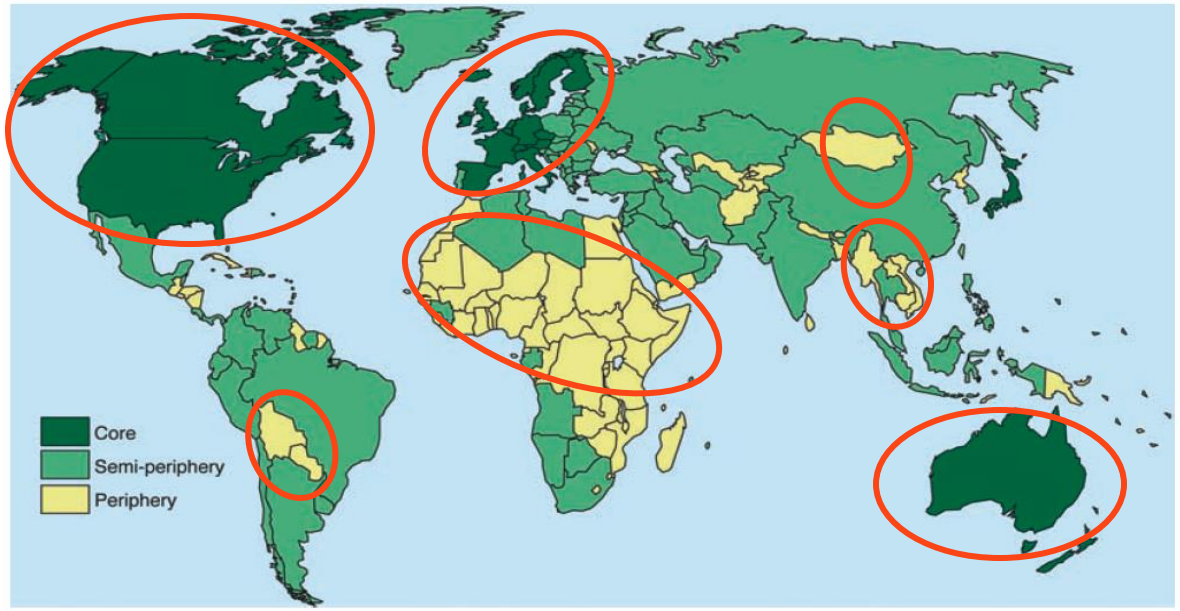
GEO 2500 Global and Regional Economies

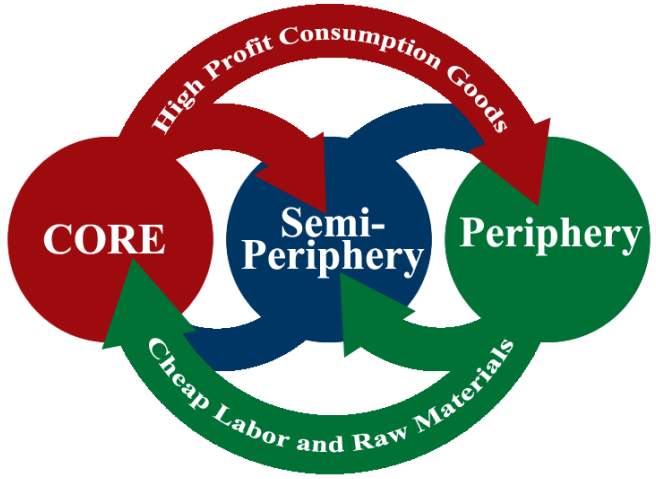
Economic Development Measures

Instructor: Natalia Dambe

UF | UNIVERSITY of FLORIDA

Economic Development: What Does it Mean?





Wallerstein's World System Theory Model

Social scientists, including Geographers and Economists, measure economic development by several different social, economic, and demographic indexes. We use terms like **core, periphery, and semi-periphery** to describe the relationship between developed and developing countries.

Core countries have a high standard of living, are industrialized, and have a strong international presence. **Periphery countries** usually have a lower standard of living and less development. **Semi-periphery countries** fall somewhere in between, with some characteristics of both core and periphery countries.

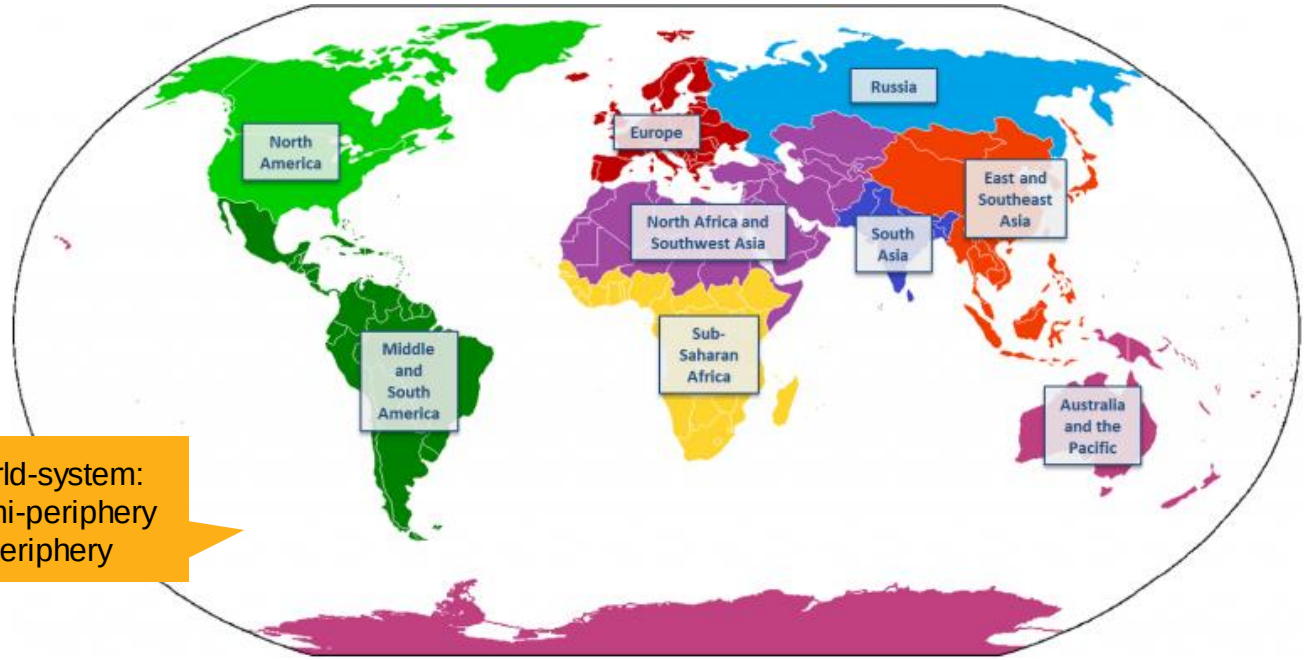
These differences are often used to analyze economic development.

Core and Periphery model

- **Core-periphery model** - describes the relationship between different regions in a country or around the world. In the model, there's a separation between "core" regions, which are more economically developed and industrialized, and "periphery" regions, which are less developed and have a weaker economy. The concept was introduced in 1958 by economist and geographer, Albert O. Hirschman. A country's economy is made up of two parts: the “core” and the “periphery”. Later, other economists and geographers developed and expanded Hirschman's core-periphery model.

- **World system theory -** analyzes the global capitalist economy at a macro level. “Core countries” are highly industrialized and economically dominant, while “peripheral countries” are less industrialized and economically dependent. “Core countries” *exploit* peripheral countries for their resources and labor, causing persistent **global inequality**. The world economy isn't a collection of individual countries, but rather an **interdependent global system**. Originally developed in the 1970s by Immanuel Wallerstein, it was further developed by Samir Amin and Andre Gunder Frank.

Economic Development: What Does it Mean?



The world-system: core-semi-periphery and periphery

What accounts for the differences among countries?
http://hdr.undp.org/en/data

Core countries - higher wages, advanced technology, and diversified production; more powerful, influential, and wealthy. Typically have more access to resources, technology, and capital. They are the most developed, industrialized, and urbanized countries and are often the most influential in terms of international politics and economics. Examples: United States, the United Kingdom, Germany, and Japan.

Semi-periphery countries - not considered part of the core but are more developed than the periphery countries. Have more access to resources, capital, and technology than the periphery but are still considered economically and politically weaker than the core countries. Examples: India, Brazil, Mexico, and South Africa.

Periphery countries - economically and politically less developed or less influential than the more dominant "core" countries. Examples: Haiti, Honduras, Mozambique, Nepal; small island nations in the Caribbean and Pacific; countries with economies heavily dependent on a single commodity or resource.

Economic Development: What Does it Mean?

Economic development - broad concept that can be defined in many different ways. Generally, it refers to improving a country's quality of life and economic well-being. Encompass a wide range of issues (e.g., economic growth, poverty reduction, and improvement in living standards).

A widely accepted definition is provided by the United Nations Development Program (UNDP): "improving the economic well-being and quality of life of a country, region, or community." In this definition, economic development encompasses both economic growth and poverty reduction, as well as improvements in social indicators such as health and education.

Economic development is important for a variety of reasons (increased living standards, higher incomes, better job opportunities, access to goods and services (food, housing, and healthcare, education), poverty reduction, greater economic stability, greater economic equality, among others).

Economic Development: What Does it Mean?

Common Definition	Development is the process in which the principal objective is to improve the quality of people's lives.
Expansion of the definition	A process by which the political, social, economic, and environmental conditions and wellbeing of the people living in a region/state/country are improved.

Measures of Economic Development

- In practice, measuring economic development can be done using a variety of indicators:

- **Gross Domestic Product (GDP) per capita:** measures the economic output of a country per person and is often used as a rough indicator of the standard of living in a country.

- **Human Development Index (HDI):** composite measure that takes into account factors such as life expectancy, education, and income.

- **Poverty rate:** measures the percentage of people living below the poverty line, which can give an indication of how well a country is doing in terms of reducing poverty.

Measures of Economic Development

- **Unemployment rate:** This measures the % of people who are unemployed and looking for work; give an indication of the overall health of the labor market.
- **Infrastructure:** quality of transportation, communication, water supply, power supply and other physical infrastructure that support economic activity.
- **Education and health:** These are important indicators of human capital, which is crucial for economic development.
- **Income inequality:** distribution of wealth across the population; a high level of inequality suggests that a large portion of the population is not benefiting from the country's economic growth.
- These are just a few examples of the many indicators that can be used to measure economic development.

How Do We Measure Economic Development?

Examples of Development Indicators:

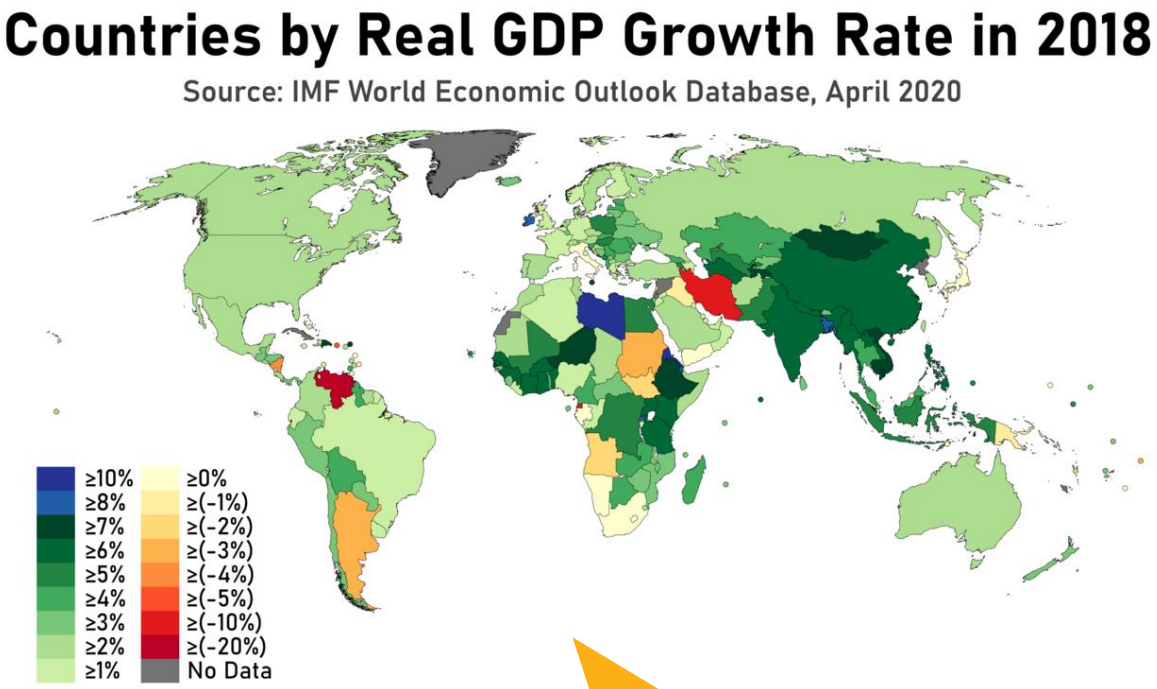
- **Human Development Index (HDI)**
  → http://hdr.undp.org/en/data
  - Per capita GDP
  - Life expectancy
  - Literacy, Mean years in formal schools

Click on the HDI link to see data for various countries. Which countries have high HDI, and which have low HDI?

- **PQLI (Physical Quality of Life Index)**
  - measures outputs or results
  - includes access to natural & built resources such as electricity, housing, other facilities

How we measure economic development?

- **Gross Domestic Product**
  - The total value of all goods and services produced in a country annually
- **Gross Domestic Product per Capita (GDP per capita)**
  - Divide the GDP by the population. It gives a rough analysis of the availability of resources for people living in that country.



Look up the GDP of the United States and the GDP of China for 2018, 2019, and 2020. How do the numbers compare? [IMF website]

Gross Domestic Product - GDP

- Broader measure that adds together the total market value of the production of goods and services produced in a country in a single year.
- GDP is used as an indicator of a country's overall economic health and is often used to compare the economic performance of different countries.
- There are several ways of calculating GDP (World Bank website).
- OECD also provides a GDP long-term forecast based on an assessment of the economic climate in individual countries and the world economy.

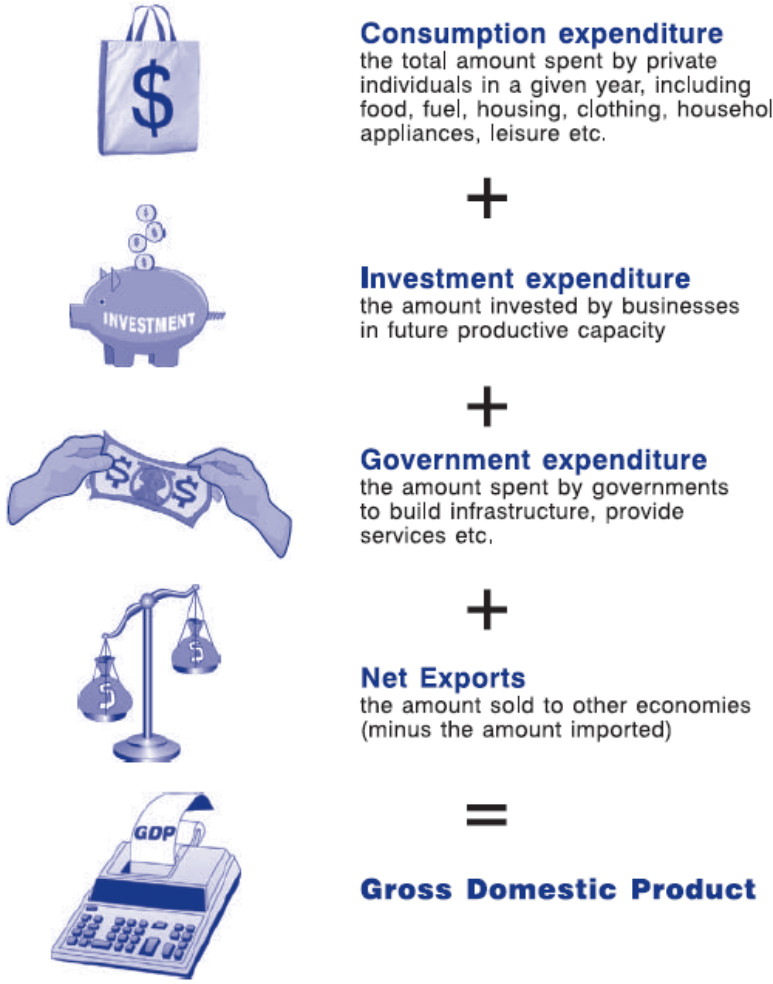


Figure 2.2 The components of Gross Domestic Product

GDP and GDP per capita

- GDP is one of the most important measures of economic development
- The final figure for GDP gives a total amount of wealth that is being generated in an economy and gives a sense of how different economies compare, especially when the total wealth is given on a **per capita** basis.
- GDP is most often calculated for national economies. Although there are many problems with GDP as a measure of economic activity and well-being, it does give an immediate sense of the geographical unevenness of global wealth and power.
- It is much more than a technical accounting tool; it also gives the general public a sense of economic trends and their collective material well-being.

GDP per capita

- GDP per capita is often used as a measure of a country's economic well-being because it considers both the overall size of the economy and the population size.
- It provides a way to compare the economic output of a country with its population, which can give a sense of the average standard of living within that country.
- GDP per capita is not a perfect measure and has some limitations as well. For example, GDP per capita does not consider income inequality, environmental sustainability, or other factors that may affect the overall well-being of a population.

GDP and GNI

- **Gross National Income (GNI)**

  - Similar to GDP, but it also includes income earned by residents of a country from investments and business activities *outside* of the country's borders. It is a measure of the total income earned by a country's residents, regardless of where the income is earned.

  - GDP measures the value of economic activity *within* a country's borders, while GNI measures the income earned by a country's residents, both within and outside of the country's borders.

Purchasing Power Parity (PPP)

- **Purchasing Power Parity (PPP)**

  - Compares the purchasing power of different currencies in different countries.

  - Used to estimate the relative value of different currencies and to determine the exchange rate that would be required to equalize the purchasing power of two currencies. Compare living standards and economic growth across countries, regardless of differences in exchange rates or inflation.

  - A dollar in the United States may not buy the same amount of goods and services as a dollar in another country due to differences in exchange rates, inflation, and cost of living. PPP takes into account these differences and provides a more accurate comparison of the purchasing power of different currencies.

Economic Development

- No single indicator can provide a complete picture of a country's economic development. A comprehensive evaluation typically involve a combination of several indicators.

- Examples of the use of development measures in our daily life include:

  - Using GDP per capita to measure a country's economic development.
  - Measuring literacy rates to assess the educational development of a population.
  - Using the HDI to measure a country's overall progress in areas such as health, education, and standard of living.
  - Measuring poverty rates to assess the economic well-being of a population.
  - Using the Gender Development Index (GDI) to measure gender-based disparities in areas such as health, education, and economic participation.
  - Measuring infant mortality rate to assess the overall health and well-being of a population.