

1 **Levels of Development**

- What are developed nations and less developed countries?
- How can we measure development?
- What are the characteristics of developed and less developed countries?
- How do we rank levels of development?

2 **Developed Nations and Less Developed Countries**

1 Developed Nations

- Developed nations are nations with higher average levels of material well-being.

2 Less Developed Countries

- Less developed countries (LDCs) are countries with low levels of material well-being.

3 **Measuring Development**

Per Capita GDP

- Per capita GDP is a measurement of a nation's GDP divided by its total population.

Energy Consumption

- How much energy a nation consumes depends on its level of industrialization, or the extensive organization of the economy for the purpose of manufacture.

Labor Force

- If a nation's labor force is mostly devoted to subsistence agriculture, or raising enough food to feed only their families, there are fewer workers available for industry.

Consumer Goods

- The quantity of consumer goods a nation produces per capita can also indicate its level of development.

Literacy

- A country's literacy rate is the proportion of the population over age 15 that can read and write.

Life Expectancy

- Life expectancy is the average expected life span of an individual. It indicates how well an economic system supports life.

Infant Mortality Rate

- A country's infant mortality rate indicates the number of deaths that occur in the first year of life per 1,000 live births.

4 **Characteristics of Developed Nations**

- Developed nations have high per capita GDPs, and a majority of their populations are neither very rich nor very poor.
- Developed nations have high levels of agricultural output, but relatively few people work on farms. Most of the labor force work in industry and services.
- Developed nations have solid infrastructure. Infrastructure is the services and facilities necessary for an economy to function.


5 **Characteristics of Less Developed Countries**

- Less developed countries have low per capita GDPs, and their low energy consumption levels signal lower levels of industrialization.
- Unemployment rates are high in LDCs, often as high as 20 percent. Most people in the labor force are subsistence farmers.
- Literacy rates in LDCs are low due to limited resources for education.
- Housing and food are often of poor quality in LDCs, leading to high infant mortality rates and lower life expectancies.

6 **Ranking Development**

7 **Section 1 Assessment**

1. Which of the following is a characteristic of a developing country?
 - (a) a high per capita GDP
 - (b) a high number of people employed in industry
 - (c) a low literacy rate
 - (d) low levels of disease
2. Less developed countries have higher infant mortality rates because
 - (a) adult literacy rates are high.
 - (b) their infrastructure is strong.
 - (c) life expectancies are high.
 - (d) nutrition and health care are poor.

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9  **Issues in Development**

- What are the causes and effects of rapid population growth?
- How do supplies of resources and physical capital influence development?
- How important is human capital to development?
- Why are political factors and debt obstacles to development?

10  **Rapid Population Growth**

- The population growth rate is the increase in a country's population in a given year expressed as a percentage of the population figure at the start of the year.
- Economists often focus on the natural rate of population increase, or the difference between the birth rate and the death rate.
- If a country's population doubles, it must also double the following if it is to maintain its current level of development:
 - Employment opportunities
 - Health facilities
 - Teachers and schoolrooms
 - Industrial output
 - Agricultural production
 - Exports and imports

11  **Resource Distribution and Physical Capital**

1 Resource Distribution

- In parts of Africa, Asia, and Latin America, physical geography makes development more difficult.
- Only about 10 percent of the world's land is arable, or suitable for producing crops.

2 Physical Capital

- The lack of economic activity typical of LDCs is due in part to a lack of physical capital.
- Subsistence agriculture provides little opportunity for individuals or families to save.

12  **Human Capital**

When a country fails to invest in human capital, the supplies of skilled workers,

industry leaders, entrepreneurs, government leaders, doctors, and other professionals is limited.

– Health and Nutrition

- Proper food and nutrition are necessary for physical and mental growth and development. Inadequate nutrition is called malnutrition.

– Education and Training

- To be able to use technology and move beyond mere subsistence, a nation must have an educated work force.

– “Brain Drain”

- The scientists, engineers, teachers, and entrepreneurs of LDCs are often enticed to the benefits of living in a developed nation. The loss of educated citizens to the developed world is called “brain drain.”

13  **Political Factors and Debt**

- From Colonial Dependency to Central Planning
 - Many LDCs are former colonies of European powers. Their dependency on their colonizers for manufactured goods hindered their own development. Several LDCs turned to central planning after gaining their independence in an effort to modernize quickly.
- Government Corruption
 - Corruption in the governments of many LDCs holds back development.
- Political Instability
 - Civil wars and social unrest prevent the necessary social stability required for sustained development.
- Debt
 - Rising oil prices in the 1970s and a strong U.S. dollar have made it hard for many LDCs to repay loans.

14  **Section 2 Assessment**

1. How does human capital contribute to development?
 - (a) financiers lend money to developing countries
 - (b) foreigners make investments in another country
 - (c) a skilled work force encourages foreign investment
 - (d) people invest their money in local resources for growth
2. How do factors like climate, mineral resources, and rainfall have an impact on development?
 - (a) Technology can be used to allocate resources differently.
 - (b) Poor climate and rainfall and lack of mineral resources can make development difficult.
 - (c) A country with good climate and resources has no trouble becoming fully developed.
 - (d) These factors seldom have any positive or negative affect on development.

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
16  **Financing Development**

- What role does investment play in development?
- What are the purposes of foreign aid?
- What role do international economic institutions play in development?

17  **The Role of Investment**

1  Internal Financing

- Internal financing is derived from the savings of a country's citizens.
- In many LDCs, there is little internal financing.

2  Foreign Investment

- Foreign investment is investment which originates from other countries.
- There are two types of foreign investment, foreign direct investment, and foreign portfolio investment.

18  **Two Types of Foreign Investment**

1  Foreign Direct Investment

- Foreign direct investment is the establishment of an enterprise by a foreigner.
- Many multinational corporations are attracted to foreign direct investment because of the possibilities for increased profits.


2  Foreign Portfolio Investment

- Foreign portfolio investment is the entry of funds into a country when foreigners make purchases in the country's stock and bond markets.
- Foreign portfolio investment creates funds which indirectly increase production.


19  **Foreign Aid**

20  **International Economic Institutions**


- World Bank
 - The largest provider of development assistance is the World Bank. The World Bank offers loans, advice, and other resources to many less developed countries.
- United Nations Development Program (UNDP)
 - The United Nations Development Program is dedicated to the elimination of poverty through development.
- International Monetary Fund
 - The International Monetary Fund (IMF) primarily offers policy advice and technical assistance to LDCs. The IMF is also viewed as a lender of last resort.

21  **Section 3 Assessment**


1. Why does the money that is invested in many less developed countries have to come from outside the country?
 - (a) The amounts of money needed are large.
 - (b) Entrepreneurs from developed countries do not want to invest in these countries.
 - (c) Most residents do not have enough money to save and invest.
 - (d) Multinational corporations want to invest in these countries.
2. The establishment of a business enterprise by someone who lives outside a country is called
 - (a) a foreign publication group.
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23  **Transitions to Free Enterprise**

- What steps are taken when moving from a centrally planned economy to a free market economy?
- What changes have taken place in Russia in recent decades?
- How has China's communist government introduced free market reforms in China?

24  **Moving Toward a Market Economy**

- Privatization
 - Privatization is the sale or transfer of state-owned businesses to individuals. Private ownership gives individuals, rather than the government, the right to make decisions about what to produce and how much to produce.
- Protecting Property Rights
 - A government must create whole new sets of laws that ensure a person's right to own land and transfer property.
- Other New Roles for Government
 - A government must also be able to deal with possible unrest caused by the transition to a market economy. A government may also play a role in establishing a new work ethic, or a system of values that gives central importance to work.

25  **Transition in Russia**

1. Communism in Russia

The Soviet government reorganized farmland into state farms and collective farms. Much of the economy was focused on the growth of heavy industry.
2. Glasnost and Perestroika

In the late 1980s, Soviet Premier Mikhail Gorbachev introduced new reforms. Glasnost was a policy of "openness" encouraging open speech. Perestroika called for a gradual change from a centrally planned economy to free enterprise.
3. Collapse of Communism

In 1991, Russians voted in their first democratic election. Soon after, the Soviet republics declared themselves independent nations. By the end of 1991, the Soviet Union ceased to exist.
4. Transition to a Free Market

Since 1991, the Russian government has moved Russia towards free enterprise. However, extensive corruption and government mismanagement have hindered Russia's progress.

26  **Transition in China**

- The Great Leap Forward
 - In 1958, Mao Zedong introduced the Great Leap Forward. The program's intent was to turn China into a great economic power, but instead resulted in famine and about 20 million deaths.

- Transition to the Free Market
 - Mao died in 1976. His successor, Deng Xiaoping, introduced new approaches to government and the economy. Deng shifted industrial and agricultural production decision-making back to individual farmers and factory owners.
- Economic Zones
 - Deng also set up four special economic zones along China’s east coast. In these zones, local governments are allowed to offer tax incentives to foreign investors and local businesses can make their own production decisions. China now has hundreds of special economic zones.

27  **Section 4 Assessment**

1. Why must private ownership of property be legally guaranteed before a free market economy will work?
 - (a) Unemployment will be too high for the private ownership to work without the guarantee.
 - (b) Foreign investors will take over the ownership of all property if it is not guaranteed.
 - (c) People will not invest in businesses unless their legal rights are protected, and they know contracts will be legal and enforced.
 - (d) Foreign investors will try to impose their own system of property rights on the country.
2. China’s special economic zones
 - (a) represent China’s commitment to communist principles.
 - (b) represent China’s shift toward a free market economy.
 - (c) provide fewer incentives for foreign investors.
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