

Unit 5 - Development Economics

Unit Overview

5.4 Growth and development strategies

- Harrod-Domar growth model
- Structural change/dual sector model
- Types of aid
 - bilateral, multilateral
 - grant aid, soft loans
 - official aid
 - tied aid
- Export-led growth/outward-oriented strategies
- Import substitution/inward-oriented strategies/protectionism
- Commercial loans
- Fair trade organizations
- Micro-credit schemes
- Foreign direct investment
- Sustainable development

Blog posts: "Fair trade"



Blog posts: "Micro-finance"



Blog posts: "IMF"



Blog posts: "Sustainability"



5.5 Evaluation of growth and development strategies

- Evaluation of the following in terms of achieving growth and/or development
 - aid and trade
 - market-led and interventionist strategies
- The role of international financial institutions
 - the International Monetary Fund (IMF)
 - the World Bank
 - private sector banks
 - non-governmental organizations (NGOs)
 - multinational corporations/transnational corporations (MNCs/TNCs)
 - commodity agreements

Development Economics

Growth and Development Models

Harrod Domar Growth Model <http://www.bized.co.uk/virtual/dc/copper/theory/th7.htm>



$$\text{Rate of GDP growth} = \frac{\text{Marginal Propensity to Save (MPS)}}{\text{Capital/output ratio}}$$

The model suggests that the economy's rate of growth depends on:

- * the level of saving
- * the productivity of investment i.e. the capital output ratio

For example:

- if \$10 worth of capital equipment produces each \$1 of annual output, a capital-output ratio of 10 to 1 exists.
- A 3 to 1 capital-output ratio indicates that only \$3 of capital is required to produce each \$1 of output annually.

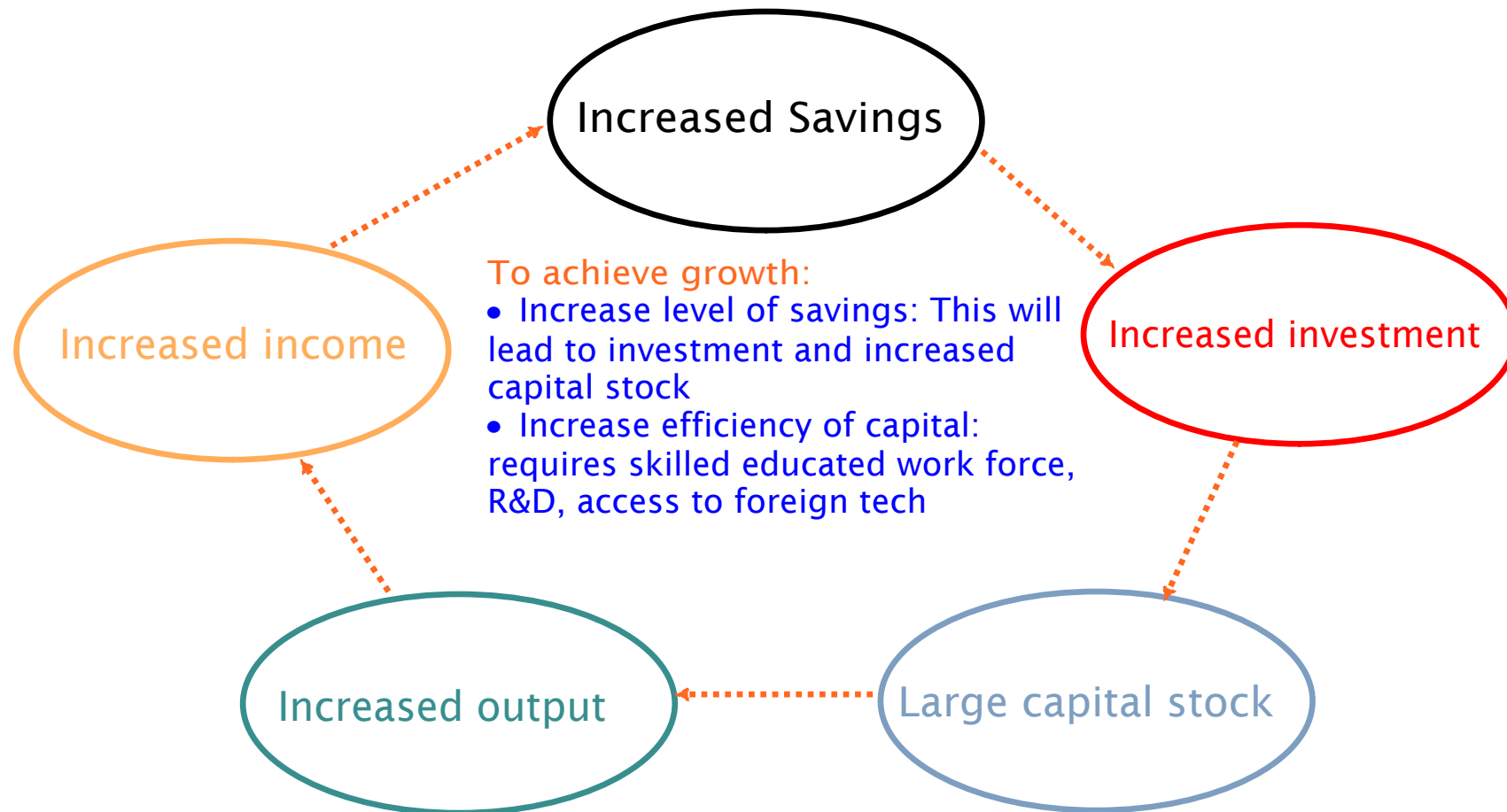
The Harrod-Domar model was developed to help analyse the business cycle. However, it was later adapted to 'explain' economic growth. It concluded that:

- Economic growth depends on the amount of labour and capital.
- As LDCs often have an abundant supply of labour it is a lack of physical capital that holds back economic growth and development.
- More physical capital generates economic growth.
- Net investment leads to more capital accumulation, which generates higher output and income.
- Higher income allows higher levels of saving.

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Growth and Development Models

Harrod-Domar Growth Model, the rationale:



Development Economics

Growth and Development Models

Lewis' Dual Sector Model of Growth:

<http://www.bized.co.uk/virtual/dc/copper/theory/th8.htm>



Many LDCs have dual economies:

- The traditional agricultural sector was assumed to be of a subsistence nature characterised by low productivity, low incomes, low savings and considerable underemployment.
- The industrial sector was assumed to be technologically advanced with high levels of investment operating in an urban environment.

Lewis suggested that *the modern industrial sector would attract workers from the rural areas.*

- Industrial firms, whether private or publicly owned could offer wages that would guarantee a higher quality of life than remaining in the rural areas could provide.
- Furthermore, as the level of labour productivity was so low in traditional agricultural areas people leaving the rural areas would have virtually no impact on output.
- Indeed, the amount of food available to the remaining villagers would increase as the same amount of food could be shared amongst fewer people. This might generate a surplus which could then be sold generating income.

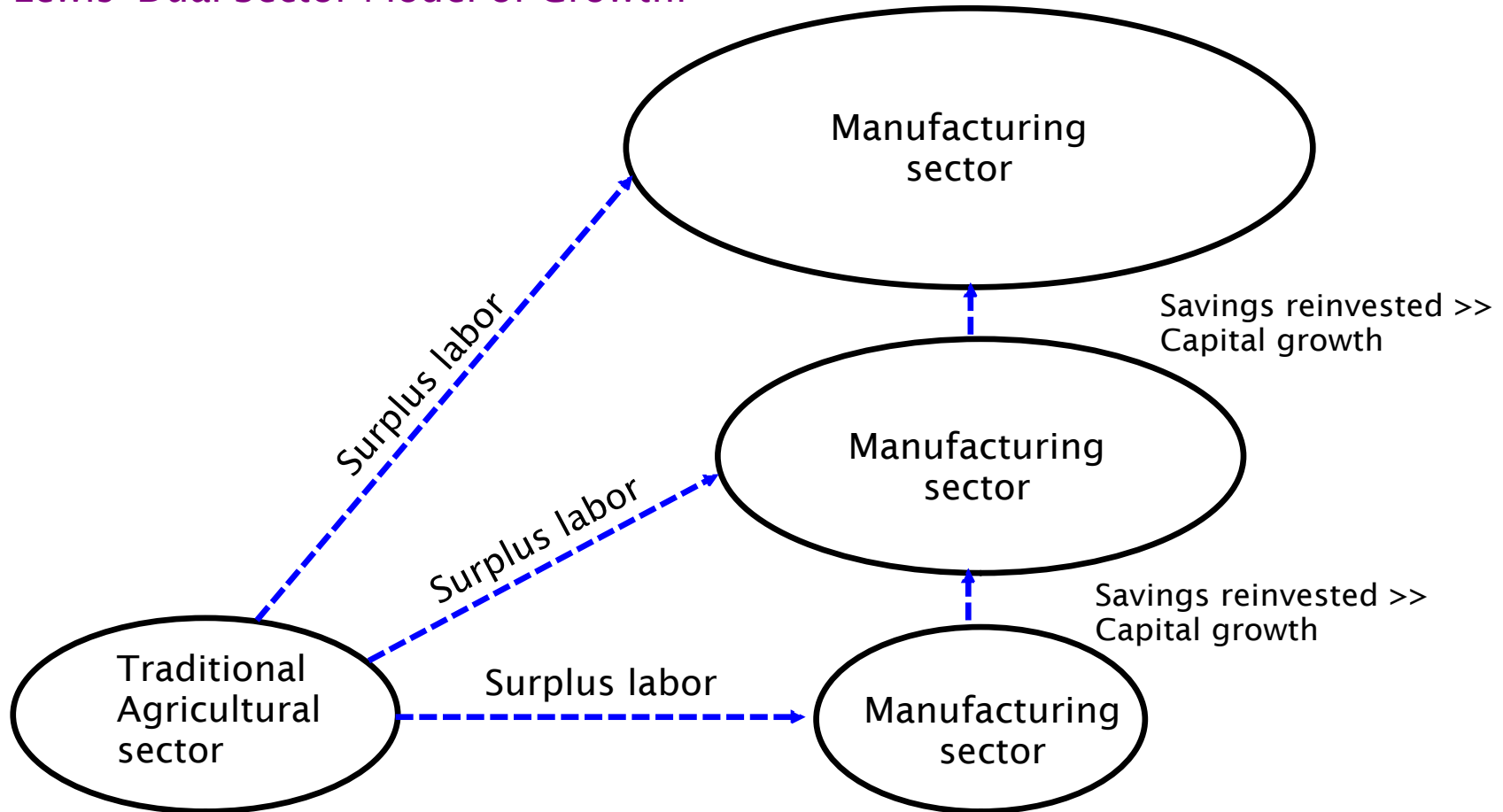
Those people that moved away from the villages to the towns would earn increased incomes:

- Higher incomes generate more savings.
- Increased savings meant more funds available for investment.
- Increased investment meant more capital and increased productivity in the industrial sector, higher wages, more incentive to move from low productivity agriculture to high productivity industry, the circle continues...

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Growth and Development Models

Lewis' Dual Sector Model of Growth:



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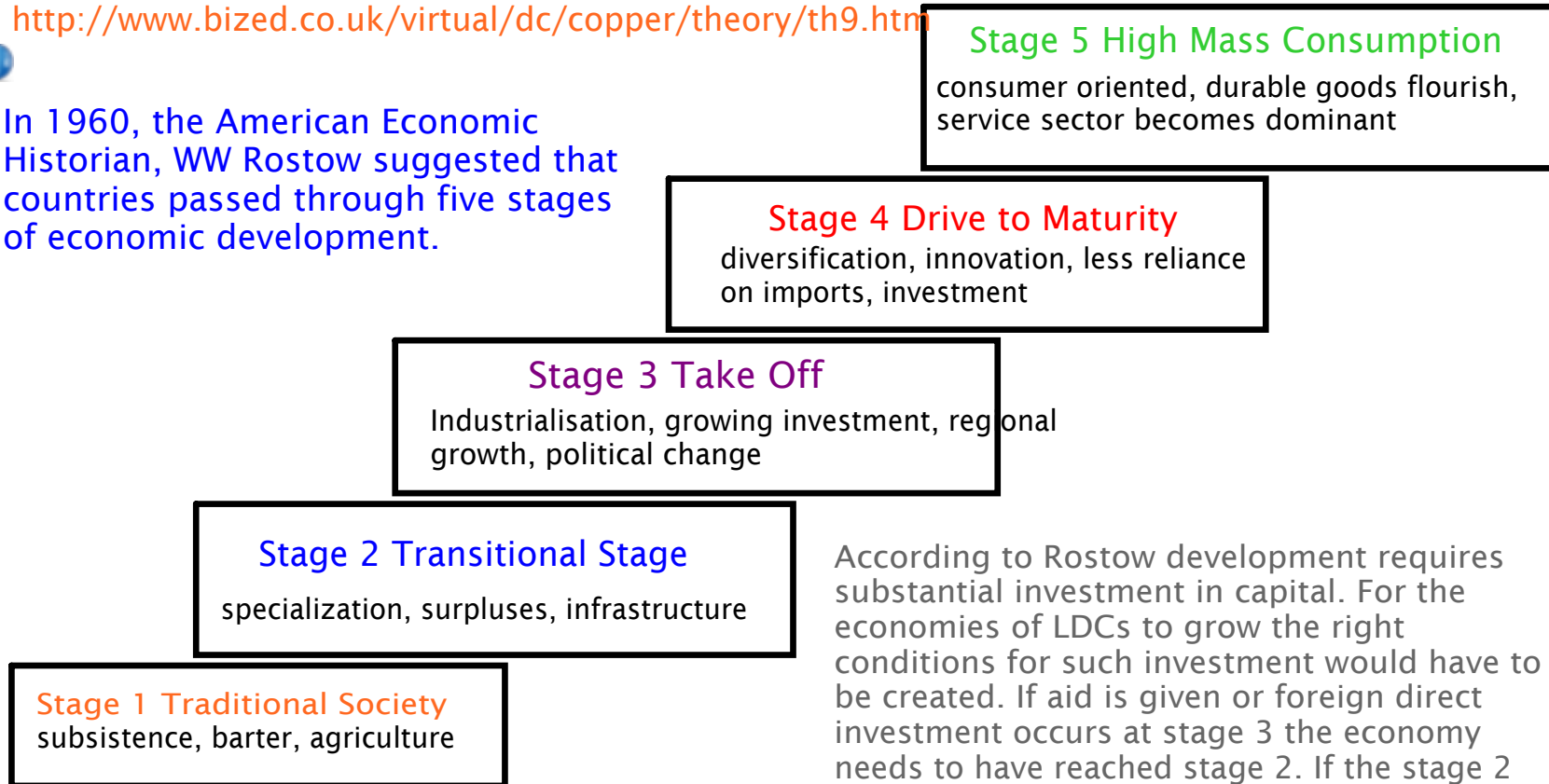
Growth and Development Models

Rostow's Model - the Stages of Economic Development:

<http://www.bized.co.uk/virtual/dc/copper/theory/th9.htm>



In 1960, the American Economic Historian, WW Rostow suggested that countries passed through five stages of economic development.



According to Rostow development requires substantial investment in capital. For the economies of LDCs to grow the right conditions for such investment would have to be created. If aid is given or foreign direct investment occurs at stage 3 the economy needs to have reached stage 2. If the stage 2 has been reached then injections of investment may lead to rapid growth.

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Growth and Development Strategies

Export-led growth:

Outward-oriented growth strategy focused on:

- increasing exports and export revenue as leading factor in AD
- increased exports should increase GDP, leading to
- higher incomes and
- growth of domestic markets
- export markets should be based on comparative advantage

Policies needed to achieve export-led growth:

- liberalized trade: allow foreign competition
- liberalized capital flows: allow FDI
- floating exchange rate
- infrastructure investments to enable trade
- deregulation and small government

Examples of exports include:

- primary products, manufactured products, services (often times tourism)

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Growth and Development Strategies

Export-led growth, important considerations:

Risk of focusing on primary products:

- protectionism by importing countries
- downward trends in price over time
- unlikely to generate export income needed to fuel growth

Benefits of focusing on manufacturing exports:

- LEDCs often have comparative advantage in labor intensive products
- demand more stable for consumer products in importing countries
- revenue stream leads to rising incomes, savings, and investments in capital and public goods like education and health.
- better human capital and technology leads to transition from low-skilled labor intensive goods to higher skilled, more capital-intensive goods.
- Incomes higher still, more savings, investment, circle of growth continues.

Development Economics

Growth and Development Strategies

Export-led growth, important considerations:

Problems associated with export-led growth:

- Protectionist backlash in importing countries (like that going on in the US against China now)
- Often a heavy role of government is needed: protect domestic industries from foreign competition at the expense of domestic consumers, subsidize inefficient industries to make them more competitive with developed world. (this is the "infant industry" argument for protectionism)
- Impact of government intervention on growth rates is debatable
- Free-market, export-led growth may worsen income inequalities in an LEDC, growth may come at the expense of development

Examples of countries who have focused on export-led growth:

- Argentina, China, Hungary, India, Malaysia, Mexico, Philippines, Thailand

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Growth and Development Strategies

Import substitution strategy:

Inward-oriented growth strategy where:

- an LEDC decides it should produce goods domestically instead of import them.
- domestic industries will then be able to grow
- GDP grows
- domestic industries achieve economies of scale
- able to compete on international markets

Conditions necessary for strategy to work:

- Government must select goods to be produced domestically
- Subsidize domestic industries
- Protectionist measures needed to keep out imports

Advantages of import substitution strategy:

- Protects jobs in domestic market
- Protects local culture by isolating economy from foreign influence
- protects economy from power of multi-national corporations

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Growth and Development Strategies

Import substitution strategy:

Disadvantages:

- may result in low growth, thus less job creation
- ignores benefits of comparative advantage and specialization, thus results in inefficiency in production
- lack of competition means no incentive to conduct R&D or achieve maximum efficiency
- may result in high inflation due to AS restraints domestically
- may result in retaliatory protectionism by other countries

Examples of countries who have focused on import-substitution strategy of growth:

- Argentina, Brazil, Mexico Chile Uruguay, India, Nigeria and Kenya

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Practice Quiz #2

Explain the difference between outward-oriented and inward-oriented growth strategies.

(Total 10 marks)

- definition of outward-oriented growth strategies, export-led growth
- identification of elements of the strategy *e.g.* low value-added/high volume production, high investment, opening up of the economy to international trade, any reasonable point
- examples of export-led growth, *e.g.* Japan, Hong Kong, Taiwan, Singapore
- definition of inward-oriented growth strategies, import substitution
- identification of elements of the strategy, *e.g.* protectionism, limiting imports to essentials, achieving economies of scale through the creation of domestic monopolies, any reasonable point
- examples of import substitution, *e.g.* India
- brief explanation of the differences

Evaluate the role of Foreign Direct Investment (FDI) in contributing to growth and development in Less Developed Countries.

(Total 25 marks)

- a good definition of FDI and the connection with Multinational Companies (MNCs)
- the advantages and disadvantages of FDI
- distinguish between growth and development
- note that the benefits of MNC investment tend to contribute to economic growth while the disadvantages tend to be in terms of a challenge to meeting development objectives.

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Growth and Development Strategies

Conditions necessary for growth:

According to the IMF, the World Bank, and the US Treasury, countries should adopt the following policies to foster growth

- fiscal discipline (balanced budgets)
- direct gov't spending towards health and education
- lower marginal tax rates and broadening tax base
- interest rate liberalization
- competitive exchange rate
- trade liberalization
- liberalization of FDI inflows
- privatization
- deregulation
- securing of property rights

(known as the "Washington Consensus")

These policies have been criticized by anti-globalization advocates, who claim that they are meant to open cheap labor markets to MNCs.

Some Latin American countries have recently moved back towards import-substitution strategies in response to the "Washington Consensus".

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Growth and Development Strategies

Foreign Direct Investment (FDI): *"long-term investment by private multinational corporation in countries overseas."*

Facts about FDI:

- usually consists of new plants in foreign countries
 - sometimes consists of mergers with domestic firms
 - there are 70,000 multinational corporations (MNCs) operating with 690,000 affiliates around the world.
 - In the past, most FDI was from one rich country to another
- In 2004 36% of FDI went to developing countries, China received 9.4% of the total, while Africa only received 2.8%
- The US is the largest recipient of FDI with 14.8% of total

Why do multi-national corporations (MNCs) invest in developing countries?

- natural resource extraction
- domestic market potential
- cheap labor - lower production costs
- loose government regulations and standards - lower production costs

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Growth and Development Strategies

Advantages associated with FDI strategy of growth:

- May help fill savings gap necessary according to the H-D model
- may provide employment, education and training
- Multiplier effect may have larger impact on whole economy
- Tax revenue for host government - spending on public goods
- Increase AD in host country from new spending on capital
- Competition for FDI by developing countries may encourage gov'ts to provide better infrastructure
- Consumer choices and prices improve
- Efficient allocation of world's resources

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Growth and Development Strategies

Possible disadvantages of FDI:

- MNCs may bring own management teams, providing no education or training
- LEDCs may compete for FDI by offering tax advantages
- Transfer pricing: when an MNC sells its output in one country to a subsidiary in another country at a lower price to avoid paying large export taxes.
- Degredation of environment - MNCs tend to locate themselves in countries with lower standards and less regulation
- Resource exploitation
- Too much capital may mean little demand for labor, so no improvements in employment
- Sometimes domestic partners are paid in shares, not money, so there's less new spending in the host country
- Repatriation of profits
- Possible exploitation of workers; child labor, unions forbidden, environmental damage, etc...

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Growth and Development Strategies

Fairtrade organizations: *"attempt to ensure that producers of food and some non-food products in developing countries receive a fair deal when they are selling their products"*

How they work:

- Products must reach traders with few or no intermediaries
- A minimum price is guaranteed to the farmer for his product - provides a "living wage"
- Farmer receives a premium if product is "certified organic"
- Trader must commit to a long-term contract to assure farmer guaranteed income
- Produce must come from producers that are managed democratically, labor standards adhered to, no child labor
- farmer must use sustainable farming methods
- a "Fairtrade Premium" is also paid to the farmers, which can be used for health care, education, or other social schemes

Examples:

Food: *bananas, cocoa, coffee, dried fruit, fresh fruit and vegetables, honey, juices, nuts/oil, seeds and purees, quinoa, rice, spices, sugar, tea and wine*

Non-food: *cotton, cut flowers, ornamental plants, sports balls*

Development Economics

Growth and Development Strategies

Micro-finance: *Otherwise known as micro-lending. Loans given to entrepreneurs in LEDCs for small-scale investments in capital, meant to give access to a financial system meant to help the poor.*

Why it's needed: *Mainstream commercial banks will often not consider small loans to poor in LEDCs since they often have no collateral, are unemployed, and lack savings*

Purpose: *to help poor people start up small-scale businesses such as roadside kiosks, bicycle repair services, market stalls, knitting, sewing, woodworking, etc.*

- *meant to give protection against unexpected occurrences and seasonal problems*
- *help families gain a regular income*
- *start building wealth and savings*
- *escape from poverty*

Women and micro-credit: *Women tend to be the main recipients, WHY?*

- *women are believed to be a better credit risk*
- *usually women are responsible for caring for children*
- *improvements in women's poverty should reduce poverty for children, improve access to education and health, improve human capital*

Examples: Muhammad Yunus' Grameen Bank

[Kiva.org](https://www.kiva.org),

[Wokai.org](https://www.wokai.org)



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Growth and Development Strategies

Non-governmental Organizations (NGOs)

Priority is to promote economic development, humanitarian ideals and sustainable development. Two functions:

- Plan and implement specific projects in developing countries
- Act as lobbyists to try to influence public policy in areas like poverty reduction, workers' rights, human rights, and the environment.

Benefits of NGOs:

- Work directly in the field, therefore can attack poverty directly
- Much of their work directly enhances human capital
- Many NGOs focus on women, for the same reason that many micro-loans are made to women

Development Economics

Aid and indebtedness

Aid: *"any assistance that is given to a country that would not have been provided through normal market forces"*

Reasons for aid:

- *help in times of natural disaster or war*
- *help LEDCs achieve economic development*
- *strengthen political alliances*
- *fill savings gap and encourage investment*
- *improve human capital*
- *improve levels of technology*
- *fund specific development projects*

Official aid: *organized by a government or a government agency*

Unofficial aid: *organized by Non-governmental Organizations (NGOs)*

Humanitarian aid: *meant to alleviate short-term suffering*

- *food aid*
- *medical aid*
- *emergency aid: may include temporary shelters, tents, clothing, fuel, etc...*

Development Economics

Aid and indebtedness

Development Aid: *Sometimes referred to as Official Development Assistance (ODA) provided by governments on concessional terms, sometimes as donations*

Defined as "flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests":

- *promotes development and welfare of developing countries*
- *it is concessional and contains a grant element of at least 25% (i.e. interest free)*

Types of development aid:

- long-term loans: 10-20 years, concessional (soft loans), i.e. below commercial interest rates, may be repayable in domestic or foreign currency
- Tied aid: grants or loans to LEDCs, but the money MUST be used to buy goods and services from the donor country
- Project aid: usually grants, require no repayment, meant for specific infrastructure projects
- Technical assistance aid: meant to raise the level of technology in LEDC by bringing in foreign technology and technicians to train locals on its use
- Commodity aid: grant aid given by countries to increase productivity in LEDCs. Provides funds to purchase commodities such as edible oils, seeds, fertilizer, chemicals, cement, steel, pumps and other equipment

Development Economics

Aid and indebtedness

Concerns about aid: *studies show that there appears to be no significant correlation between the level of aid given to an LEDC and the growth of GDP!!*

WHY?

- corruption among LEDC governments
- often ends up helping wealthy city dwellers
- often aid is given to middle income countries instead of the super-poor ones that need it most
- aid may be given for political reasons, not economic
- tied aid is not as effective as untied aid: actually acts as an indirect subsidy to producers in donor country. Creates no new employment or output in LEDC
- food aid may force down domestic prices and make matters worse for domestic farmers, a better option would be reducing subsidies to farmers in the rich country
- Dependency on aid may reduce incentive for innovation in LEDC
- aid usually comes with strings attached, recipient must adopt certain economic policies (in line with the Washington Consensus)
- loan repayments may lead to problems of indebtedness for LEDCs

HOWEVER: in the poorest countries with no savings or domestic investment, and poor resources and human capital, aid may be the only option to help the poor!

Development Economics

Aid and indebtedness

Indebtedness: "The Third World Debt Crisis", what is it?

Before 1970's developing countries borrowed very little.

- *After 1973, OPEC countries began depositing billions into Western banks., forcing interest rates down.*
- *Banks had to find someone to loan the money out to. Needed to create new demand for funds to continue making profits. Regular borrowers (firms and households in the developed countries) did not take enough out.*
- *Developing countries began borrowing from Western commercial banks, but at market interest rates instead of the usual aid-oriented concessionary rates.*
- *Banks made little effort to monitor what the loans were being used for.*

Some of the projects the money borrowed by LEDCs was used for included:

- *Large infrastructure projects that often failed,*
- *20% went towards arms to fight wars,*
- *private bank accounts of dictators, generals and politicians,*
- *VERY LITTLE was put towards development projects!*

Development Economics

Aid and indebtedness

"Third World Debt Crisis" - Why it's a crisis:

- In 1970, the 60 poorest countries owed \$25 billion in debt.
- In 2002, they owed \$523 billion.
- Most of developing countries payments on their debt go towards interest, not the principal, which means *the debt is NOT GOING AWAY!*

"Debt servicing" - *the repayment of the original debt plus interest payments. If a country can not even pay back all of the interest on its loans, then its debt grows over time.*

Developing countries servicing debt are unable to spend their scarce revenues on projects such as:

- *improving infrastructure,*
- *investments in human capital (education and health)*

Examples of the "debt crisis":

- *Nigeria: borrowed \$17 billion, has paid back \$18 billion, but still owes \$34 billion.*
- *Malawi spends more on debt servicing than on health care.*

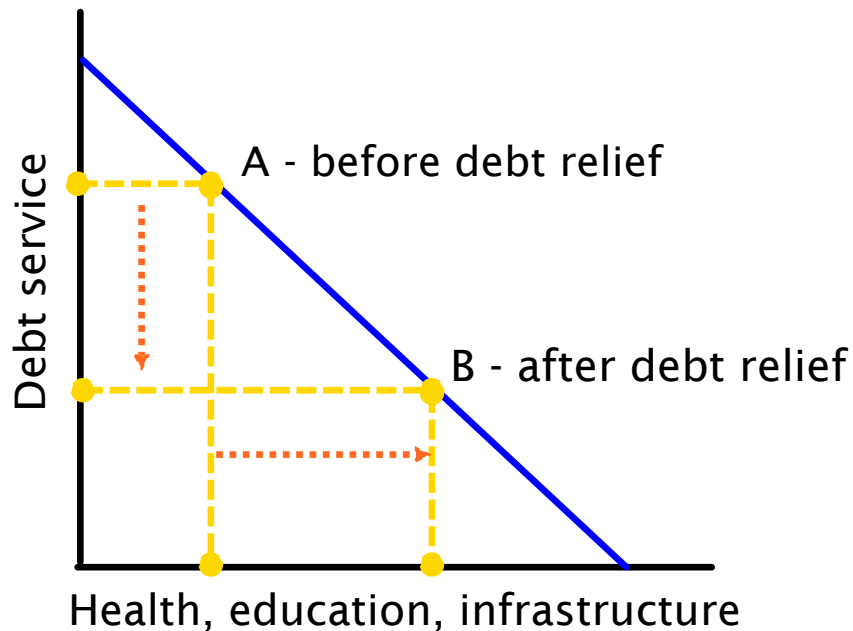
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Aid and indebtedness

Arguments for the relief of "Third World debt":

"Odious debt" - a legal term referring to debt that is incurred by a regime and is then used for purposes that do not serve the interests of the people.

- Once dictator is gone, the people are left paying back his debt.
- Argument for relief is that Western commercial banks, international financial institutions that made the loans are partially at fault for the bad loans, so should relieve the debt.



Debt relief and LEDC's
"Spending possibilities Line":
Developing countries have to
choose between spending on debt
servicing or on essential public
goods. Clearly, they can't do
both.

Development Economics

Aid and indebtedness

Problems with growth of "third-world debt":

- *Through 1970s LEDCs were often able to make loan repayments. Why? High commodity prices, world inflation kept real interest rates low.*
- *1979: worldwide recession decreases demand for commodities,*
- *LEDCs whose income is largely from commodity exports now find it hard to make debt payments*
- *1982: Mexico "defaults" on its loans. It announced to the world that it simply would not be able to pay off its debt. In the next few years, many other LEDCs announced they could not "service their debt"*

The International Monetary Fund (IMF):

- *Lent funds to developing countries that needed them,*
- *but would only do so if the countries in question adopted certain policies*

Development Economics

Aid and indebtedness

Structural Adjustment Policies included:

- Encouraging trade liberalization by lifting barriers to trade
- Encouraging export of primary agricultural commodities, known as "cash crops", and commodities such as minerals and metals
- Devaluing the currency
- encouraging FDI
- privatization of nationalized industries
- Reduce gov't spending to balance budgets
- Reduce spending on social projects
- Charge for basic services such as education and health
- Remove subsidies and price controls
- Improve governance, reduce levels of corruption

These "SAPs" reflect the "Washington Consensus"

SAPs may harm the poor due to:

- a reduction of government-provided services such as education and health care
- increasing unemployment
- a fall in real wages
- increased price of certain products due to removal of subsidies

SAPs may lead to long-term growth, but short-term effects may be harmful to the poor.

Development Economics

Aid and indebtedness

UK's Brown: World's Poorest Will Not Be Overlooked at G-20 Summit - 25 March 2009

"I think we are recognizing that the Washington consensus on economic policy is over - that the old world has gone, that we have got to build a new consensus on economic development for the future," he said. "And the message to every country, I think, is that doing nothing is no longer an option."

He said that at the April 2 summit in London, the G-20 will have to take steps to put the world on the road to economic recovery.

"And we will have to take action in London to make sure that the banking system is reformed, to ensure ourselves that our financial institutions can come to the aid of the poorest countries, and to make sure that we do what is necessary to ensure that there is strong growth and recovery - and particularly jobs in the world economy as a result of the actions that we take," he said...

The U.N. chief said his role would be as an advocate for the world's poorest people, who he fears will suffer the most if donor countries reduce their international assistance or do not fulfill their aid commitments.

"My position is that while I would welcome the G-20 leaders to formulate their national stimulus packages, they should never lose sight of the challenges and pride of developing countries, particularly the most vulnerable poor countries," said Ban Ki-moon.

Mr. Ban said he has written to the G-20 members, outlining four areas where he thinks they must show leadership, including producing a "very substantial" international stimulus package in addition to their national ones, meeting their existing donor commitments and taking a firm stand against protectionism.

BBC NEWS UK - G20 must act on economy - Brown

Development Economics

World Bank and IMF

The World Bank is:

- Collection of five individual organizations.
- Created following Bretton Woods Agreements in 1945.
- Aims are to reduce poverty and encourage international investment, promoting economic development.

International Bank for Reconstruction and Development (IBRD):

- Loans to developing countries at low rates,
- loans support specific projects such as health care, agriculture, pollution reduction, infrastructure.

International Finance Corporation (IFC)

- Promotes private sector investment.
- Makes loans to private customers to finance projects in developing countries

International Development Association (IDA)

- Gives interest free loans to the poorest of developing countries.

Multilateral Investment Guarantee Agency:

- Sells political risk insurance to MNCs to encourage FDI

International Center for Settlement of Investment Disputes:

- facilitates the settlement of disputes between member countries and investors

Development Economics

World Bank and IMF

The International Monetary Fund:

- Proposed at Bretton Woods in 1944, began operations in 1947.
- 184 countries working to "foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty"

IMF uses three practices to meet its objectives:

Surveillance:

- IMF annually surveys each member country's economic performance.
- Discuss with member countries policies best suited to achieve stable exchange rates and economic growth.

Technical assistance:

- Offers training to member countries in areas such as fiscal and monetary policy, exchange rate policy, banking and finance, and statistics

Financial assistance:

- "A core responsibility of the IMF is to provide loans to countries experiencing balance of payments problems. This financial assistance enables countries to rebuild their international reserves; stabilize their currencies; continue paying for imports; and restore conditions for strong economic growth. Unlike development banks, the IMF does not lend for specific projects."
- Countries receiving loans must adopt Structural Adjustment Policies aimed at liberalizing markets, stabilizing currencies, privatization, reducing government spending, encouraging FDI

Development Economics

Market-led vs. Interventionist Growth

The Debate: *Should the governments of LEDCs play an active role in the growth and development of their economies? Or should Laissez faire philosophy lead a country towards economic growth and development?*

Market-led Growth Strategies

Classical view -

- *Laissez faire*
- *minimize role of gov't*
- *maximize operation of supply and demand in markets*
- *Export-led growth*
- *Encourage FDI,*
- *Privatize industries*
- *Deregulation*
- *Structural Adjustment Policies*
- *IMF and World Bank*
- *"Washington Consensus"*

Interventionist Growth Strategies

Keynesian view-

- *Active role for government*
- *Manipulate workings of the markets in the economy*
- *Import substitution,*
- *Inward oriented,*
- *Protectionist trade policies,*
- *Exchange rate intervention*
- *Regulations,*
- *Nationalization of industries*
- *Government involvement in export markets to promote certain industries.*

So which system is best? One? Both?

Development Economics

Market-led vs. Interventionist Growth

The results: Both market-led and interventionist growth and development have their shortcomings

Market-led Growth Strategies

- Infrastructure may be underprovided,
- unemployment may increase in the short-run,
- protection in developed countries hinders developing country's ability to compete,
- rural/urban migration,
- slums,
- Lack of political stability may hinder FDI

Interventionist Growth Strategies

- led to large public sectors
- inefficiency,
- corruption,
- large deficits leads to borrowing and increased money supply,
- inflation,
- large infrastructure investments led to little success.

Certain conditions are necessary for both **economic growth and economic development** to occur:

- **Trade justice** - fair trade means protection by neither developed nor developing countries
- **Debt relief**
- **Free domestic markets** - once competitiveness has been achieved
- **Political stability** - eliminate corruption
- **Aid** - that leads to pro-poor growth

Development Economics

Practice Questions - from the IB

Outline the possible advantages of a country specialising in manufactured goods instead of primary products.

(Total 10 marks)

(a) What factors explain the growth in importance of multinational corporations over recent decades? Illustrate your answer where possible by making reference to your own or other countries.

(12)

(b) Do multinational corporations work in favour of or against the interests of Less Developed Countries?

(13)

(Total 25 marks)

(a) Why have multi-national corporations grown so rapidly in recent decades?

(10)

(b) Do multi-national corporations help or hinder the less developed countries?

(15)

(Total 25 marks)

Evaluate the consequences for developing countries of relying on market forces and outward orientated strategies to achieve economic growth.

(Total 25 marks)

Development Economics

Practice Questions

(a) What evidence would indicate to an economist that a country is experiencing economic development as well as economic growth?

(10)

(b) Evaluate the strategies that may be used to achieve economic development. Refer to real world examples in your answer.

(15)

(Total 25 marks)

To what extent has the international trading system contributed to economic growth and development in less developed countries?

(Total 25 marks)

Evaluate the role of Foreign Direct Investment (FDI) in contributing to growth and development in Less Developed Countries.

(Total 25 marks)

Explain **two** ways in which multinational corporations might hinder the development of less developed countries.

(Total 10 marks)

Discuss the view that investment in human capital is the most effective way to provide development.

(Total 25 marks)

Development Economics

Practice Questions

Critically evaluate the significance of foreign direct investment (FDI) in the process of economic development for less developed countries (LDCs).

(Total 25 marks)

(a) Explain the main characteristics of a market economy.

(10)

(b) Evaluate the proposition that economic development is best achieved through the market system.

(15)

(Total 25 marks)

(a) Explain **two** significant barriers to economic growth in LDCs.

(10)

(b) Evaluate strategies that may be used to overcome the two barriers identified in (a).

(15)

(Total 25 marks)

Explain the difference between outward-oriented and inward-oriented growth strategies.

(Total 10 marks)

Development Economics

Practice Questions

(a) Describe the ways in which More Developed Countries provide 'aid' to Less Developed Countries. (10)

(b) Which is the most effective way to encourage development - aid or trade? Justify your answer. (15)

(Total 25 marks)

Distinguish between the forms of aid which a developing country might receive. (Total 10 marks)

“According to the World Bank, an extra 10 billion dollars in aid could lift 25 million people a year out of poverty – so long as it went to poor countries that manage their economies well. The same sum spent across the current distribution of aid recipients would lift only 7 million out of poverty.”

(a) What are the economic arguments in favour of using aid as part of a development policy for less developed countries? (12)

(b) How far would you agree with the World Bank view, that aid has failed as a development policy because of the poor economic management policies that less developed countries have adopted? (13)

(Total 25 marks)

(a) What are the main types of aid available to less developed countries (LDCs)? (10)

(b) To what extent is aid effective in terms of addressing the problems faced by LDCs? (15)

(Total 25 marks)