

IB Economics – Development Economics

4.1: Economic Growth and Development



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4.1 ECONOMIC GROWTH AND DEVELOPMENT: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

1. DEFINITIONS

Define the following terms:

- Absolute poverty
- Closed economy
- Comparative advantage
- Direct tax
- Distribution of income
- Economic development
- Economic growth
- Entrepreneurship
- External costs
- Foreign direct investment
- Formal sector
- GDP per capita
- GNI per capita
- Gross domestic income
- Human capital
- Income
- Infrastructure
- Marginal propensity to consume
- Marginal propensity to save
- Market failure
- Market reforms
- National income
- Negative externalities
- Physical capital
- Productivity
- Relative poverty
- Savings
- Tax revenue
- Urban informal sectors
- Welfare loss

[10 marks]

2. SHORT-ANSWER QUESTIONS

1. Distinguish between economic growth and economic development. [4 marks]
2. Distinguish between economically more developed and less developed countries. [4 marks]
3. Explain two ways in which economic growth in a country would not result in economic development. [4 marks]

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4. Explain the most important sources of economic growth in economically less developed countries. **[10 marks]**
5. Explain the relationship between economic growth and development. **[6 marks]**
6. Explain the common characteristics of developing countries. **[10 marks]**
7. Explain, using examples, that economically less developed countries differ enormously from each other in terms of a variety of factors. **[10 marks]**
8. Explain why it is dangerous to make generalisations about the characteristics of less developed countries. **[4 marks]**
9. Explain how the concept of income elasticity of demand accounts for the proportional decrease in the relative size of the agricultural sector as national income increases. **[4 marks]**
10. Contrast the informal sectors of developed and less developed countries. **[4 marks]**
11. Explain how high birth rates can hinder a country's economic development. **[4 marks]**
12. Answer the following questions regarding the poverty cycle: **[10 marks]**
 - i. Use a diagram to explain the poverty cycle
 - ii. Explain how poverty is transmitted through generations
 - iii. Explain why outside investment is necessary to break the poverty cycle
13. Outline the Millennium Development Goals. **[4 marks]**
14. Outline the current status of the Millennium Development Goals. **[4 marks]**

3. MULTICHOICE QUESTIONS

Choose the best answer to each question.

[40 marks]

1. Which is not considered to be a common characteristic of LDCs?
 - a. Low levels of GDP per capita
 - b. High levels of poverty
 - c. Political instability
 - d. Relatively large agricultural sectors

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2. The most important sources of economic growth in LDCs are least likely to include?
 - a. Increases in quantities of physical capital
 - b. Increases in quantities of human capital
 - c. The political system
 - d. Institutional changes
3. In the poverty cycle, which is least likely to directly cause low productivity of labour and land?
 - a. Low physical capital
 - b. Low financial capital
 - c. Low human capital
 - d. Low natural capital
4. Which is not considered to be a reason why LDCs differ enormously from each other?
 - a. Climate
 - b. Proportion working in the informal sector
 - c. History (colonial or otherwise)
 - d. Political systems
5. Which is not considered to be a common characteristic of LDCs?
 - a. Undemocratic political systems
 - b. Relatively large agricultural sectors
 - c. Large urban informal sectors
 - d. High birth rates and population growth
6. Which is not considered to be a reason why LDCs differ enormously from each other?
 - a. Resource endowments
 - b. Climate
 - c. Rate of population growth
 - d. Political stability
7. Which is not one of the Millennium Development Goals?
 - a. Eradicate extreme poverty and hunger
 - b. Improve maternal health
 - c. Develop a global partnership for development
 - d. Ensure a universal income
8. Economic growth is an increase:
 - a. In real GDP per capita over time
 - b. In real GNP per capita over two consecutive quarters
 - c. In real GDP per capita and decreased income inequality
 - d. In productive capacity and productivity
9. Economic development rather than economic growth would be signalled by an increase in:
 - a. GDP per capita

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- b. Poverty
 - c. Literacy rates
 - d. Labour productivity
10. Economic growth rather than economic development would be signalled by an increase in:
- a. Unemployment
 - b. Inequality
 - c. Poverty
 - d. GDP per capita
11. Which factor is not positively correlated with economic growth?
- a. Productivity rates
 - b. Literacy rates
 - c. Relative size of the agricultural sector
 - d. Life expectancy
12. Which will decrease the GDP per capita gap between LDCs and developed countries?
- a. Fast population growth
 - b. Increased marginal propensity to consume
 - c. Increased capital flight
 - d. Improvements in literacy and numeracy
13. Which is not considered to be a common characteristic of LDCs?
- a. High levels of poverty
 - b. Poor resource endowment
 - c. Relatively large agricultural sectors
 - d. High birth rates and population growth
14. Real GDP in an LDC increases from \$400 to \$425 billion, and population growth is 1.68 to 1.73 million:
- a. Real GDP per capita increased by \$75
 - b. Real GDP per capita decreased by \$75
 - c. Increased by 2%
 - d. Decreased by 2%
15. Which is not part of the multidimensional nature of economic development?
- a. Reducing widespread poverty
 - b. Increasing political stability
 - c. Reducing income inequalities
 - d. Increasing employment opportunities
16. Which is not considered to be a common characteristic of LDCs?
- a. Tropical climate
 - b. Relatively large agricultural sectors

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- c. Large urban informal sectors
 - d. High birth rates and population growth
17. Which is not considered to be a reason why LDCs differ enormously from each other?
- a. Climate
 - b. Low levels of GDP per capita
 - c. Resource endowments
 - d. Political systems
18. Which is not part of the multidimensional nature of economic development?
- a. Raising living standards
 - b. Reducing income inequalities
 - c. Increasing employment opportunities
 - d. Reducing high birth rates
19. Which is not one of the Millennium Development Goals?
- a. Eradicate extreme poverty and hunger
 - b. Achieve universal secondary education
 - c. Promote gender equality and empower women
 - d. Reduce child mortality
20. Which is not part of the multidimensional nature of economic development?
- a. Reducing widespread poverty
 - b. Raising living standards
 - c. Increasing economic activity in the formal sector
 - d. Reducing income inequalities
21. Capital flight is the:
- a. Financial capital outflows from a country
 - b. Physical capital outflows from a country
 - c. Human capital outflows from a country
 - d. Natural capital outflows from a country
22. Which is not considered to be a reason why LDCs differ enormously from each other?
- a. Historical factors
 - b. Resource endowments
 - c. Climate
 - d. Levels of poverty
23. An unlikely consideration in the measurement of economic development is a country's:
- a. Tax collection systems
 - b. Defence expenditures
 - c. Social welfare benefits
 - d. Literacy rates

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24. Which is not one of the Millennium Development Goals?
- Improve labour productivity
 - Combat HIV/AIDS, malaria and other diseases
 - Ensure environmental sustainability
 - Develop a global partnership for development
25. Which of the following is not an important source of LDC economic growth and development?
- Increased physical capital
 - Changes in the institutions of governance
 - Fast population growth
 - Technology use and development
26. Economic growth is best defined as:
- Real GDP per capita
 - Money GDP
 - Investment
 - The Human Development Index
27. Which is not considered to be a common characteristic of LDCs?
- Low levels of GDP per capita
 - Relatively large agricultural sectors
 - History of colonisation
 - High birth rates and population growth
28. Which is not considered to be a reason why LDCs differ enormously from each other?
- Resource endowments
 - Climate
 - Size of the agricultural sector
 - Political stability
29. In an AD/AS diagram, economic growth is shown by a shift to the:
- Right of the short-run aggregate supply curve
 - Left of the short-run aggregate demand curve
 - Right of the aggregate demand curve
 - Right of the long-run aggregate demand curve
30. 'Development' differs from 'growth' in that development takes account of:
- The economic efficiency of a country
 - Output per capita
 - Income distribution
 - Shifts in production possibility frontiers
31. Economic growth will more likely lead to economic development if accompanied by:

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- a. A greater reliance on international aid
 - b. A reduction in government welfare programmes
 - c. A rapid increase in the population
 - d. A redistribution of income to poorer citizens
32. An LDC nominal GDP increases by 3%, inflation increase by 2% and the population increase by 1%:
- a. Real GDP per capita has increased by 4%
 - b. Real GDP per capita has increased by 2%
 - c. Real GDP per capita has increased by 1%
 - d. Real GDP per capita has increased by 0%
33. Which of the following limits potential long-run economic growth?
- a. The size of the government sector
 - b. The level of aggregate demand
 - c. The supply of factor inputs
 - d. The money supply
34. In the poverty cycle, low investment is least likely to result in:
- a. Low financial capital
 - b. Low physical capital
 - c. Low human capital
 - d. Low natural capital
35. Which is not one of the Millennium Development Goals?
- a. Promote gender equality and empower women
 - b. Reduce child mortality
 - c. Increase GDP per capita
 - d. Ensure environmental sustainability
36. An LDC can best break out the cycle of poverty by:
- a. Increasing the marginal propensity to save
 - b. Increasing the productivity of human capital
 - c. Attracting foreign direct investment
 - d. Investing in more physical capital
37. If an LDC's economy is growing at an average rate of 10%, its GDP will double:
- a. Every 3-4 years
 - b. Every 5-6 years
 - c. Every 7-8 years
 - d. Every 10 years
38. Intensive small scale economic activity in the slum areas of LDCs is known as:
- a. The black market

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- b. The informal sector
 - c. The parallel economy
 - d. Rural-urban migration
39. Which of these will not lead to economic growth?
- a. Increased immigration of skilled labour
 - b. The drilling of new oil wells
 - c. Increased investment in education and training
 - d. A higher price level
40. The most important sources of economic growth in LDCs are least likely to include?
- a. Increases in quantities of physical capital
 - b. The development and use of new technologies
 - c. Institutional changes
 - d. Increases in population growth

4. TRUE OR FALSE QUESTIONS

Indicate whether the following statements are true or false.

1. In the poverty cycle, low savings directly lead to low investment.
True
False
2. In the poverty cycle, low incomes directly lead to low savings.
True
False
3. The marginal propensity to save decreases as income increases.
True
False
4. The marginal propensity to consume decreases as income increases.
True
False
5. Economic growth will always lead to some form of economic development.
True
False
6. There is positive correlation between economic growth and economic development.
True
False

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7. Foreign direct investment into an LDC is the best way to escape the poverty cycle.
True
False
8. LDCs have a relatively large secondary sector compared to their primary sector.
True
False
9. LDCs have a relatively large informal sector when compared to their formal sector.
True
False
10. LDCs tend to have low rates of literacy and low rates of population growth.
True
False

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