

Chapter 1

Introducing Economic Development

Learning Objectives :

After learning this chapter you will understand :

- Economic Growth Vs Economic Development.
- Some Fundamental Questions of Development Economics.
- Living Standards.
- Classification of Countries.
- Economics & Development Studies.
- Amartya Sen's "Capability" Approach.

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Basic Concepts

1. **Economic Growth V/s Economic Development**

Topic	Economic Growth	Economic Development
1. Definition	Economic growth refers to the increase in the output of goods and services in a country over a period of time. It is typically measured by the growth rate of Gross Domestic Product (GDP) or Gross National Product (GNP). It represents an expansion of the economy's capacity to produce goods and services, which leads to increase in the income of the people.	Development economics is a branch of economics that focuses on improving the living conditions of people. It is a broader concept that encompasses economic growth but also includes improvements in living standards, reduction in poverty, health & education, sanitation and enhancement of economic, social, and institutional well-being.
2. Measurement	Economic Growth is quantitative in nature, focusing on numerical increase in GDP, GNP, Production, Consumption and Investment etc.	Economic Development is both quantitative & qualitative in nature. It focuses on improving not only the income but social, political and institutional aspects as well.
3. Indicators	GDP Growth rate, Per capita income, Industrial Production, Unemployment rate etc.	Human Development Index, Poverty Rates, Literacy rates, Life expectancy, Access to Healthcare and Education, Political Stability etc.
4. Scope	Narrow Concept, primarily concerned with increase in economic output and efficiency.	Broader Concept, addressing structural changes, social equity and sustainable growth.
5. Policies	Main Policies for Economic Growth are : (i) Fiscal Policy : Government spending & taxation to boost aggregate demand. (ii) Monetary Policy : Central bank control of interest rate and	Main Policies for Economic Development are : (i) Human Capital Development : Investments in education, healthcare & social welfare programs to build a skilled & healthy workforce. (ii) Industrial Policy :

	<p>money supply to stimulate economic activity.</p> <p>(iii) Supply-side Policies : Tax cuts, deregulation & investment incentives to encourage businesses to increase output.</p> <p>(iv) Trade Policies : Export-oriented policies, free trade agreements and trade liberalization to increase economic efficiency.</p> <p>(v) Infrastructure Development : Building roads, bridges and public transportation to facilitate economic activity.</p>	<p>Government support for specific industries or sectors to promote diversification and innovation.</p> <p>(iii) Institutional Development : Strengthening legal frameworks, property rights & governance to create a favorable business environment.</p> <p>(iv) Social Protection Policies : Programs aimed at reducing poverty & inequality, such as social safety nets & labour market interventions.</p> <p>(v) Sustainable Development Policies : Investment in renewable energy, environmental protection, and sustainable infrastructure to ensure long term economic growth.</p>
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While economic growth policies focus on short term increase in economic activity, economic development policies aim to create a strong foundation for long term prosperity & welfare of the people.

2. **Some Fundamental Questions of Development Economics :** The study of economic development raises some of the world’s biggest questions. Some of them are as under :

- ❖ Why is output per worker many times higher in some countries than others?
- ❖ Why do workers in some countries have fairly secure, formal jobs with regular, predictable pay, while in other countries such jobs are extremely scarce and most work in informal settings with fluctuating and insecure earnings?
- ❖ Why do living conditions differ so drastically for people across different countries and regions?

- ❖ Why are there such disparities not only in income and wealth, but also in health, nutrition, education, freedom of choice, women's autonomy, environmental quality, access to markets, security, and political voice?
- ❖ Why are populations growing rapidly in some countries, while on the verge of shrinking in others?
- ❖ Why are public services so inefficient, insufficient, and corrupt in some countries and so effective in others?
- ❖ Why have some formerly poor countries made so much progress, and others so comparatively little?
- ❖ How have child illness and death rates fallen so much in the world, and what can be done in places where they remain far higher than average?

3. **Living Standards** : Average living conditions differ drastically, depending largely on where a person was born. Often, countries as a whole are divided into four groups based on their average levels of income or other standards of well-being. Let us consider four “stylized strata” of living standards around the world.

- (i). Lowest Stratum: Extreme Poverty,
- (ii). Second-Lowest Stratum,
- (iii). Second-Highest Stratum,
- (iv). Highest (“Rich”) Stratum

(i) **Lowest Stratum, Extreme Poverty** : At the “bottom,” more than one billion people live in extreme income poverty, or suffer acute multidimensional deprivations in areas such as nutrition, health, and primary education, or both. The World Bank estimated in 2017 that 768.5 million, nearly three-quarters-of-a-billion people, subsist below the extreme poverty income line of \$1.90 per day adjusted for purchasing power.

One of the poorest communities may live in a remote rural area in the eastern part of Africa, where many clusters of small houses contain groups of extended families. A majority of the food is grown by the people who consume it; and shelter and furnishings are often made by those who use it—theirs is nearly a subsistence economy.

Note: Subsistence Economy : An economy in which production is mainly for personal consumption and the standard of living yields little more than basic necessities of life—food, shelter, and clothing.

Some Basic features of Lowest Stratum

- (a) **Cooking**: Food is cooked over an open fire in each mud house, the smoke escaping from a hole in the roof, and likely causing breathing problems.
- (b) **Food and nutrition**: The food tends to be the same every meal, often lacking in protein and other vital nutrients. Majority of food grown by family; often malnourished and among the 800 million people classified as

hungry. The children may be malnourished, suffering from conditions including kwashiorkor (protein deficiency).

- (c) **Clothing:** Used, worn, may be inadequate; flip-flops or in many cases still bare feet
 - (d) **Education:** Majority now able to attend primary school, but may not complete it. The younger children attend school irregularly and, all too often, when they do get to school, the teacher is absent from the classroom. Primary schools may be very difficult to access, and many children have never seen a high school, let alone thought of attending one.
 - (e) **Housing:** Self-constructed with natural or found materials, often mud; thatch roof, dirt floors with mats. The floor may be rough mats over mud, on which the family sleeps. Parasites may gain entry to the house through the floor. Parasites may gain entry to the house through the floor. When it rains, the roof may leak. It is a stark and difficult existence.
 - (f) **Furnishings:** Any pallet or bed, table, chair, or shelf is self-constructed; No electricity in the house.
 - (g) **Water:** Water is collected in reused commercial buckets from a source such as a spring or stream that is often contaminated; their walk to it in battered flip-flop sandals (if not bare feet) can be a kilometer or more, and it may take additional time waiting your turn.
 - (h) **Sanitation:** Many people resort to open defecation which can spread diseases and contaminate water sources.
 - (i) **Transportation:** On foot
- (ii) **Second Lowest Stratum :** A typical person in the second-lowest of the “strata” is not officially classified as extremely poor, though from the perspective of an average person in a rich country they would be viewed as very poor indeed.

In fact, a typical family in this stratum may live on about \$3.80 per day per person, which is twice the income of an average person of lowest stratum.. Close to 3 billion people may be thought of as living in this stratum.

Some Basic features of Second Lowest Stratum

- (a) **Cooking :** A majority of them no longer cook over open fires, but may use kerosene or some other improved energy source at least much of the time.
- (b) **Food & Nutrition :** May be food insecure or vulnerable to falling into food insecurity.
- (c) **Clothing :** Their clothes are inexpensive, they often wear used clothing, not well fitting and perhaps inadequate for the weather. They wear worn and rubber-soled shoes.
- (d) **Education :** Children of this category finish primary school and on an average attend a couple years longer in school.
- (e) **Housing :** Their houses are mostly self constructed. The family usually has an improved floor, and often improved walls and roof, but the house is still somewhat subject to the elements. Their sleep is disrupted by seemingly constant noise.

- (f) **Furnishings** : They have basic tables and seating; They would have basic fans if electricity supply is available. Their power connection may be illegal and improvised.
 - (g) **Water** : They get their water from a tap, though it is typically outdoors and may be a considerable walk from their house; and in many cases the water is still unsafe without boiling and adding chlorine.
 - (h) **Employment** : Their employment is probably informal, in companies not registered and without worker protections, or in their own small family enterprises.
 - (i) **Transportation** : They get around with well-used but functioning bicycles.
- (iii) **Second Highest Stratum** : A typical family in the second-highest of the strata may live on about \$15 per person per day. This family is considered solidly middle income by global standards. More than two billion people may be thought of as living in this strata.
- Some Basic features of Second Highest Stratum**
- (a) **Cooking** : They cook on manufactured burners using kerosene if not electricity.
 - (b) **Food and Nutrition**: Usually food secure; but many vulnerable to fall into food insecurity
 - (c) **Clothing**: Their clothes are inexpensive, though new when purchased, and worn or less-expensive shoes and sneakers. They wear expensive clothes as social expectations rise.
 - (d) **Education**: The children are likely to survive early childhood. Children finish primary school; some finish secondary school
 - (e) **Water**: Their water is typically delivered through a tap to their house, though a majority do not have what people in the rich strata would consider full indoor plumbing. Water supplied to them may need treatment.
 - (f) **Sanitation**: Their houses have toilets, but many lack what the top stratum considers full indoor plumbing.
 - (g) **Housing**: Such families typically live in urban areas. Their houses are modest but better constructed, if not comfortable.
 - (h) **Furnishings**: They have a television in their house. Their houses have electricity, They have tables, chairs, beds; fans or even a room AC & space heater in their house. Most adults and many teenagers have a mobile phone, though there may be no smartphones.
 - (i) **Transportation**: They get around with a motorbike.
 - (j) **Inequality**: Their city is likely to exhibit very high inequality, with sharp contrasts in living conditions from one section of this sprawling metropolis to another.
 - (k) **Employment**: Their jobs are usually not very stable and are often informal.

- (iv) **Highest Stratum** : Close to a billion people live on the highest stratum, which most other people in the world consider rich. Most are certainly not millionaires, let alone ultra-rich; but they live very comfortably.

A family in this stratum living in North America, Western Europe, or Japan might live on an income of perhaps \$75 per person per day.

Some Basic features of Second Highest Stratum

- (a) **Cooking:** They have modern appliances including modern range, microwave, dishwasher
- (b) **Food and Nutrition:** They have access to fresh food year round (though they may eat fast foods instead). Both children would probably be healthy—except for a growing incidence of obesity and the problems it brings—and generally get good medical care if they need it.
- (c) **Clothing:** They wear well-fitting, perhaps designer clothing; They have multiple, relatively new, comfortable dress and sports shoes
- (d) **Education:** They would be attending school, where most would expect to complete their secondary education and, more likely than not, gain at least some post-secondary education; choose from a variety of careers to which they might be attracted; and live to an average age of close to 80 years.
- (e) **Housing:** They may have a comfortable suburban house that has a small yard with a garden, and two cars. The dwelling would have many comfortable features, including often a separate bedroom for each child. They enjoy central air conditioning and/or central heating, as prompted by the climate. Full indoor plumbing is taken for granted.
- (f) **Furnishings:** Their house would be filled with numerous consumer goods, including high-speed internet connections to go with their smartphones, laptops, and home entertainment systems, along with an array of appliances including stoves, refrigerators, dishwashers, and microwaves.
- (g) **Employment:** They work in formal jobs, generally with at least some protections. Although their lives would have ups and downs, and living standards do not always rise across generations, they face very little danger of falling below their stratum.
- (h) **Water:** They have access to safe water at taps throughout the house.
- (i) **Sanitation:** Their houses have Hygienic, modern bathroom plumbing.
- (j) **Transportation:** They have a car per each adult; or in high density each person is assured reliable transportation alternatives

4. **Classification of Countries by Their Average Levels of Development** : Countries are often classified by levels of income and human development. They are also grouped by levels of poverty, quality of governance, and many other dimensions. Initially we are classifying the countries by their average levels of incomes.

The World Bank classifies countries according to four ranges of average national income:

- (i) High Income Countries (HICs)

- (ii) Upper Middle Income Countries (UMCs)
- (iii) Upper Middle Income Countries (LMCs), and
- (iv) High Income Countries (LICs)

There has been strong income growth in average incomes in a majority of low- and middle-income countries over the last several decades, and many low-income countries have been reclassified as middle-income countries. But, once again, a typical country may have people living at very different income levels, or living standards strata.

- (i) **High Income Countries (HICs)** : Of the world population of about 7.7 billion people in 2018, about 16% live in high-income countries (HICs). These countries have Gross national income (GNI) per capita of at least \$12,056. This is less than would be thought of as “upper income” in many HICs such as Japan, the United Kingdom, and the United States, with average incomes several times this level. Some countries included on the World Bank HIC list had average income that was only barely enough to reach the HIC threshold, such as Chile, Equatorial Guinea, and Hungary. But the average person in an HIC lives very well by global standards.
- (ii) **Upper Middle Income Countries (UMCs)** :To be classified as upper-middle income (UMCs) in 2018, a country needed GNI per capita between \$3,896–\$12,055.
- (iii) **Lower Middle Income Countries (LMCs)** : In the World Bank classification, countries with a GNI per capita incomes between \$996 and \$3,895 in 2018.
More than 60% of the world’s people now live in “middle-income countries.”
- (iv) **Low Income Countries (LICs)** : About three-quarters-of-a-billion people—roughly 10% of the world’s population—live in LICs, with GNI per capita below \$1,026. A majority of these countries are located in sub-Saharan Africa, where population is growing fastest.

The United Nation’s designation of “least-developed countries” is similar to LICs; for inclusion, a country has to meet criteria of low education and health, and high economic vulnerability, as well as low income. Just over a billion people live in these 49 countries. Conditions in some of them, such as Afghanistan, Congo, Somalia, South Sudan, and Yemen, are bleak.

At the opposite end are the highest-income developed countries that are members of the Organization for Economic Cooperation and Development (OECD), primarily in West Europe and North America, plus Australia, New Zealand, Japan, and South Korea.

- 5. **Economics and Development Studies** : The scope of development economics and the work that development economists do is much broader than the name might suggest. Development economics is the study of how economies are transformed from stagnation to growth and from low- income to high-income status, and overcome problems of extreme poverty.

Development economics incorporates research in political economy and institutional, behavioural and experimental economics; it overlaps and links with other subfields including labour, public, urban, agricultural, environmental, and international economics.

In addition to traditional topics in economics such as the efficient allocation and growth of productive resources, development economics must also address the economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid (at least by historical standards) and large-scale improvements in levels of living. This can be particularly challenging in many low- and also middle-income countries, when commodity and resource markets are typically highly imperfect, consumers and producers have limited information, major structural changes are taking place in both the society and the economy, the potential for multiple equilibria rather than a single equilibrium is more common, and disequilibrium situations often prevail (prices do not equate to supply and demand).

Thus, development economics, to a greater extent than traditional neo-classical economics or political economy, must be concerned with the economic, cultural, and political requirements for effecting rapid structural and institutional transformations of entire societies in a manner that brings the fruits of economic progress to all their populations.

6. **The Central Role of Women :** Development scholars generally view women as playing a central role in the development drama, which must be the first thought rather than an “after thought.” Globally, women tend to be poorer than men; they are also more deprived in health, education and in freedoms in all its forms. These facts alone lead to the special focus on women in development. Moreover, women in developing countries have primary responsibility for child rearing, and the resources that they are able to bring to this task will determine how readily the cycle of transmission of poverty from generation to generation can be broken. Children need better health and education, and studies from around the developing world confirm that mothers tend to spend a significantly higher fraction of income under their control for the benefit of their children than fathers do. Women also transmit values to the next generation.
7. **Amartya Sen’s “Capability” Approach :** Amartya Sen's capability approach is a conceptual framework that focuses on enhancing human capabilities and freedoms, rather than solely on economic growth or utility maximization. It prioritizes individual well-being, dignity, and agency, and considers factors like education, healthcare, and social opportunities that enable people to pursue their goals and valued life paths. Amartya Sen's "Capability" approach is a broad framework for evaluating individual well-being and social arrangements, designing policies, and proposing development strategies. It emphasizes the actual capabilities and freedoms individuals have to achieve the kind of lives they value.

Key aspects of the capability approach include:

- (i) **Capabilities:** Sen focuses on enabling individuals to develop their human capabilities, such as:
 - Being healthy
 - Being educated
 - Having access to resources and opportunities
 - Having social and political participation
 - Having control over one's life and decisions
- (ii) **Functionings:** The actual achievements and outcomes of an individual's capabilities, such as:
 - Being literate
 - Having a decent standard of living
 - Enjoying good health
 - Participating in community life
- (iii) **Freedom:** Sen emphasizes the importance of individual freedom and agency, enabling people to make choices and pursue their goals without coercion or restriction.
- (iv) **Human development:** The capability approach aims to enhance human development, encompassing:
 - Expanding human capabilities
 - Improving human functionings
 - Enhancing individual freedoms
- (v) **Distributive justice:** Sen's approach also considers the distribution of resources, opportunities, and capabilities within society, aiming to reduce inequalities and promote social justice.
- (vi) **Contextual considerations:** The capability approach acknowledges the importance of context, including:
 - Cultural and social norms
 - Economic and political structures
 - Environmental and geographical factors

Sen's work has had significant influence on development economics, welfare economics, and human development theory, and has informed policy approaches to poverty reduction, education, and healthcare. By prioritizing human capabilities, freedoms, and agency, Sen's capability approach offers a more comprehensive and inclusive perspective on development, welfare, and human well-being.

Exercise 1

Theory Questions

Q1. Why is an understanding of development crucial to policy formulation in developing nations?

Ans. An understanding of development is crucial to policy formulation in developing nations for several reasons:

1. **Holistic Perspective on Well-Being**

- **Beyond GDP:** Development encompasses more than just economic growth. It includes health, education, equality, and quality of life. Policies should therefore target a broad range of indicators to truly improve living standards.
- **Capability Approach:** Following Amartya Sen's framework, policies can focus on expanding people's capabilities, giving them the freedom to pursue lives they value. This holistic perspective ensures that development is inclusive and multifaceted.

2. **Tailored Interventions**

- **Context-Specific Solutions:** Understanding the unique social, economic, cultural, and environmental contexts of a nation helps in designing policies that address specific local challenges.
- **Targeted Support:** Development understanding allows for identifying vulnerable groups and targeting interventions to those who need them most, ensuring equitable growth.

3. **Sustainable Development**

- **Long-Term Focus:** Policies based on a deep understanding of development promote sustainability. This includes environmental sustainability, economic resilience, and social stability.
- **Balancing Growth and Equity:** It helps in creating policies that balance economic growth with social equity, ensuring that development benefits are widespread and not concentrated in a few hands.

4. **Human development:** Understanding development helps policymakers focus on human development, including education, healthcare, and social welfare.

5. **Effective Resource Allocation**

- **Prioritizing Needs:** Understanding development helps in identifying priority areas such as healthcare, education, and infrastructure, leading to more effective allocation of limited resources.
- **Cost-Benefit Analysis:** It enables policymakers to assess the potential impacts of their policies, ensuring that investments yield the highest social and economic returns.

6. **Empowerment and Participation**

- **Inclusive Policy-Making:** An understanding of development emphasizes the importance of involving citizens in the policy-making process, ensuring that policies reflect the needs and aspirations of the people.
- **Building Institutions:** It aids in strengthening institutions that support democratic governance, transparency, and accountability, which are crucial for sustainable development.

7. **Addressing Inequality**

- **Reducing Poverty and Inequality:** Policies informed by development understanding aim to reduce poverty and inequality, which are major barriers to sustainable growth. Development policies can target poverty reduction, inequality, and social exclusion, leading to more equitable growth.

- **Social Justice:** They promote social justice by addressing structural inequalities and providing opportunities for all segments of society.

8. Monitoring and Evaluation

- **Tracking Progress:** An understanding of development provides the framework for setting benchmarks and indicators to monitor progress and evaluate the effectiveness of policies.
- **Adaptive Policies:** It allows for adaptive policy-making where policies can be adjusted based on feedback and changing circumstances, ensuring continuous improvement.

9. Global Competitiveness

- **Integrating into the Global Economy:** Developing nations can better integrate into the global economy by understanding and adopting best practices in development, enhancing their competitiveness.
- **Attracting Investment:** Policies that promote a stable and conducive environment for business can attract foreign and domestic investment, driving further development.

Understanding development is fundamental to crafting effective, inclusive, and sustainable policies in developing nations. It ensures that policies are well-rounded, context-specific, and aimed at genuinely improving the quality of life for all citizens. By focusing on expanding capabilities, reducing inequalities, and promoting sustainable growth, policymakers can create a robust framework for long-term development and prosperity.

Q2. How does the concept of “capabilities to function” help us gain insight into development goals and achievements? Is money enough? Why or why not?

Ans. The concept of "capabilities to function," as proposed by Amartya Sen, provides a nuanced framework for understanding development goals and achievements beyond traditional economic metrics. Here's how it offers insight and why money alone is insufficient:

Insight into Development Goals and Achievements

(i) **Broader Perspective on Well-Being:**

- a) **Capabilities to Function:** This concept shifts the focus from mere possession of resources to what people can actually do with those resources. It considers the real freedoms and opportunities people have to achieve their potential and live the lives they value.
- b) **Development Goals:** It highlights that true development should aim at expanding people's capabilities, ensuring they have the ability to pursue education, access healthcare, participate in the political process, and live in a safe environment, among other things.

(ii) **Individual Differences:**

- a) **Diverse Needs and Preferences:** Different individuals have different needs and circumstances. The capability approach recognizes these

variations and argues that development policies should be tailored to enhance individual capabilities.

- b) **Context-Specific Goals:** This perspective encourages setting development goals that are sensitive to the specific contexts and challenges of different populations.
- (iii) **Focus on Outcomes:**
 - a) **Functionings:** By emphasizing what individuals are able to do and be (their functionings), the capability approach looks at the actual achievements in various aspects of life, such as education, health, and social participation.
 - b) **Evaluating Success:** Success in development is measured not just by economic growth or income levels, but by improvements in people's real living conditions and their ability to achieve valued functionings.

Is Money Enough?

No, money alone is not enough. Here's why:

- (i) **Conversion of Resources:**
 - a) **Different Conversion Abilities:** People convert resources (like money) into functionings differently. For example, a person with a disability might need more resources to achieve the same level of functioning as an able-bodied person.
 - b) **Access to Services:** Having money doesn't automatically grant access to essential services if those services are not available or are of poor quality.
- (ii) **Social and Environmental Factors:**
 - a) **Public Goods and Infrastructure:** Money can buy private goods, but many essential aspects of well-being depend on public goods (like clean air, public safety, and infrastructure) and cannot be purchased individually.
 - b) **Social Norms and Inequality:** Discrimination and social barriers can prevent individuals from converting monetary resources into meaningful capabilities. For instance, women in some societies might have limited opportunities regardless of their financial resources.
- (iii) **Intrinsic Value of Non-Material Aspects:**
 - a) **Health, Education, and Security:** These are critical components of well-being that cannot be fully captured by income alone. A person's health, for instance, is influenced by access to quality healthcare, which requires more than just personal financial resources.
 - b) **Participation and Empowerment:** Development involves enhancing individuals' ability to participate fully in society, make choices, and have a voice in decisions that affect their lives. These aspects go beyond mere economic transactions.

(iv) Subjective Well-Being:

- a) **Happiness and Satisfaction:** While money can contribute to happiness up to a certain point, factors such as relationships, mental health, and sense of purpose play significant roles in overall life satisfaction.

The concept of "capabilities to function" broadens our understanding of development by emphasizing what individuals are actually able to achieve with the resources they have. It highlights that money, while important, is not sufficient on its own to ensure well-being. True development requires creating an environment where individuals have the freedom and opportunities to pursue and realize their valued life goals, taking into account the diverse factors that influence their ability to convert resources into meaningful achievements.

Multiple Choice Questions (MCQ's)

- Q1. What is the primary focus of development economics?
(a) Economic growth and stability in developed countries
(b) Economic growth and poverty reduction in developing countries
(c) International trade and finance
(d) Environmental sustainability
- Q2. Which of the following is a key characteristic of developing countries?
(a) High per capita income
(b) Low population growth rate
(c) Limited access to education and healthcare
(d) High level of industrialization
- Q3. What is the Human Development Index (HDI)?
(a) A measure of economic growth and stability
(b) A measure of poverty and inequality
(c) A composite index of life expectancy, education, and income
(d) A measure of environmental sustainability
- Q4. Which of the following is a major challenge facing developing countries?
(a) Rapid economic growth
(b) High levels of foreign investment
(c) Limited institutional capacity and governance
(d) Low levels of international trade
- Q5. What is the primary goal of development economics?
(a) To maximize economic growth and profits
(b) To reduce poverty and inequality
(c) To promote sustainable development and human well-being
(d) To increase international trade and finance
- Q6. Which of the following is a characteristic of the informal sector in developing countries?
(a) High productivity and wages
(b) Low productivity and wages
(c) Limited access to credit and technology

- (d) High levels of unionization
- Q7. What is the term for the movement of people from rural to urban areas in search of better economic opportunities?
- (a) Urbanization (b) Ruralization
(c) Migration (d) Displacement
- Q8. Which of the following is a major cause of poverty in developing countries?
- (a) Lack of economic growth
(b) Inequality and unequal distribution of resources
(c) Limited access to education and healthcare
(d) All of the above
- Q9. What is the term for the process of improving the lives of people in developing countries through economic growth and poverty reduction?
- (a) Development (b) Growth
(c) Progress (d) Modernization
- Q10. Which of the following organizations is primarily responsible for providing financial assistance to developing countries?
- (a) World Bank
(b) International Monetary Fund (IMF)
(c) United Nations Development Programme (UNDP)
(d) World Trade Organization (WTO)
- Q11. What is the term for the situation where a country's exports are worth less than its imports?
- (a) Trade deficit (b) Trade surplus
(c) Balance of payments (d) Current account deficit
- Q12. Which of the following is a benefit of foreign direct investment (FDI) in developing countries?
- (a) Increased competition and unemployment
(b) Decreased technology transfer and innovation
(c) Increased capital inflows and job creation
(d) Decreased economic growth and stability
- Q13. What is the core idea of Amartya Sen's "Capability" approach?
- (a) Measuring economic growth solely through GDP.
(b) Assessing well-being based on individuals' income levels.
(c) Evaluating well-being based on individuals' actual capabilities and freedoms.
(d) Determining social progress through technological advancements.
- Q14. According to Sen's "Capability" approach, what is a "capability"?
- (a) The total wealth a person possesses.
(b) The various functions a person can achieve.
(c) The skills a person has acquired through education.
(d) The potential to earn a high income.
- Q15. Which of the following is NOT a key component of the "Capability" approach?
- (a) Functionings (b) Capabilities
(c) Resources (d) Utility

- Q16. What does Sen mean by "functionings" in his "Capability" approach?
- (a) The income and wealth of an individual.
 - (b) The states of being and activities that a person can undertake.
 - (c) The educational qualifications of an individual.
 - (d) The societal status of a person.
- Q17. Why does Sen criticize traditional economic measures like GDP per capita?
- (a) They do not account for environmental degradation.
 - (b) They do not consider inequalities within a society.
 - (c) They do not reflect individuals' actual capabilities to lead the lives they value.
 - (d) All of the above.
- Q18. Which of the following best describes "agency" in the context of Sen's "Capability" approach?
- (a) The ability to act on behalf of others.
 - (b) The capacity to pursue goals that one values and has reason to value.
 - (c) The ability to accumulate wealth.
 - (d) The function of governmental institutions in policy-making.
- Q19. Sen's "Capability" approach emphasizes the importance of:
- (a) Only the availability of resources.
 - (b) Only economic development.
 - (c) The opportunities and freedoms people have to achieve well-being.
 - (d) Only technological progress.
- Q20. Which of the following is a limitation of focusing solely on resources according to Sen's "Capability" approach?
- (a) Resources do not equate to actual freedoms and opportunities.
 - (b) Resources are difficult to measure.
 - (c) Resources are not related to economic growth.
 - (d) Resources are not important for well-being.
- Q21. How does Sen's "Capability" approach address issues of inequality?
- (a) By focusing on income redistribution.
 - (b) By measuring the overall happiness of a population.
 - (c) By emphasizing the distribution of capabilities and opportunities.
 - (d) By ensuring everyone has the same level of resources.
- Q22. Which of the following statements aligns with Sen's "Capability" approach?
- (a) Economic growth is the sole indicator of a country's development.
 - (b) Individual freedoms and opportunities are central to evaluating development.
 - (c) The number of consumer goods owned determines well-being.
 - (d) National security is the most important aspect of development.

Answers of Exercise 1

MCQ's

1. (b), 2. (c), 3. (c), 4. (c), 5. (c), 6. (b), 7. (a),
8. (d), 9. (a), 10. (a), 11. (a), 12. (c), 13. (c), 14. (b),
15. (d), 16. (b), 17. (d), 18. (b), 19. (c), 20. (a), 21. (c),
22. (b),

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