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SSC 102: Man and His Economic Environment.

Topic: The Nature of Economics

The nature of a discipline is reflected in its definition, our starting point therefore is to examine the definition of economics.

The definition of Economics can be broadly divided into two, the first type of definition is related to wealth and material welfare while the second type of definition is related to scarcity of means.

The classical Economists led by **Adam Smith** in **1776** defined Economics as a science of wealth other economist in the group include **David Ricardo, Jean-Baptiste Say** and **Francis Amasa** Walker. Each of these scholars and social thinkers cast their wealth based definition of economics as follows:

1. Adam Smith's Definition : Economics is an inquiry into the nature and causes of the wealth of nations. According to this definition, Economics is a field of study which is concerned with the study of the factors that determines the wealth for a country and how this wealth grows over time. In this way Adam Smith emphasized the production and expansion of wealth as a subject matter of economics.

2. David Ricardo's Definition: David Ricardo's contribution to the definition of economics was to shift emphasis from the production of wealth to the distribution of wealth. This definition sees economics as the study of wealth on one hand and study of human behaviour on another. It regards wealth as source of human welfare but does not regard it as an end in itself.

3. Alfred Marshall's Definition: Alfred Marshall separated Economics from politics by using the term Economics rather than political economy. Alfred Marshall coined the term Economics from political economy. In his definition of Economics, Alfred Marshall elevated the study of Economics to the realm of science by removing political influences in the analysis of economic issues. Three things are noted from this definition;

   - Economics is the study of man's behaviour in relations to wealth.

• Economics is a social science; the definition makes it clear than economics studies man's life in the ordinary business of life.

• Economics aims at promoting social welfare i.e the end in economics is the attainment of wellbeing of the society.

Despite the improvement to the definition of Economics contained in Alfred Marshall's definition which made it widely acceptable for long, it suffered two main criticism pit forward by Lionel Robbins an English Economist.

Criticism of Alfred Marshall's Definition

1. Economics is not limited to material things.
2. Economics is concerned with scarcity and not welfare.

Jean-Baptiste Say's Definition : J.B Say defined Economics as the study of the laws which governs wealth. He looked at the ethical nature of the accumulation of wealth.

F.A Walker's Definition: Walker defined Economics as a body of a knowledge which relates to wealth

Criticism on Wealth Based Definition of Economics

1. Emphasis on Materialism: Thomas Carlyle, an historian was one of those who referred to economics as a gospel of mammon on account of its elevation of wealth to an object of scientific study.
2. It ignores man's behaviour in relation to wealth.

Lionel Robbins observed that nature has not provided mankind enough resources to satisfy all wants. This leads to the option of making choice of which wants or need and Economic agent has to satisfy at a point in time. The choice is necessitated by the fact that Economic agents such as individual households, business firms and government have unlimited wants but limited resources or means of satisfying these wants. Furthermore, the limited resources have alternative uses, thus, Economics is concerned with developing a systematically organised body of knowledge about rational choice making under the condition of scarcity.

Therefore, Lionel Robbins scarcity definition of Economics is defined as follows; Economics is the sciences that studies human behaviour as a relationship between ends and scarce means which have alternative uses.

Five Basic Concepts from Scarcity Definition

1. Ends: This refers to the various human wants in the society. First, they are unlimited and secondly, they are of varying importance.
2. Scarcity: Given the enormity nature of human wants, the material needs to meet these wants are inadequate or limited. In other words, there's a lack of

correspondence between human wants and the resources to satisfy them. In Economics we refer to this situation as scarcity. It is the scarcity of resources that manifest in the Economising behaviour of human beings. If there were no scarcity economic problems will not exist and there will not be economics as a discipline.

3. Scale of Preference: This refers to a table or list showing the various human wants arranged in order of importance.
4. Choice: Having arranged human wants on a scale of preference a decision would have to be made in choosing the most pressing and important needs of the economic agents.
5. Opportunity Cost: This refers to the worth the choice that was made by the economic agents in terms of the alternatives that was left unfulfilled or unsatisfied. The opportunity cost arises out of the fact that people faced trade-offs. Hence given up to get that item. Hence in any economic decisions we make, the worth is evaluated in terms of alternatives forgone.

Nature and Scope of Economics

Any situation where you can find human and problems related to Economics is where you can define the scope of Economics.

Some study areas in Economics:

1. Micro Economics: this is a branch that focus on individual Economic unit or Economic agent.

2. Macro Economics: this is a branch that studies aggregate variables, economy at large e.g unemployment, inflation e.t.c

3. International Economics: they study the interdependence among countries of the world

4. Public finance: this study the income and expenditure of government (local state and federal).

5. Development Economics: they are concerned about the growth and development of a particular country or area.

6. Environmental Economics: this studies the environmental impacts of Economics activities on the environment.

7. Health Economics.

8. Urban and Rural Economics

9. Industrial or Business Economics.

10. Applied Economics

N.B: Mathematics is not a branch but a tool used in the Economics.

11. Agricultural Economics

12. Sport Economics

What makes Economics a Science?

1. It has a Systematised body of knowledge

2. It has Testable hypothesis.

3. Ability to make decision.

4. Universal Validity.

Positive and Normative Economics

Positive Economics is the type of Economics concerned with **fact**. It is based on WHAT IS and they are objective in Nature.

Example: A fall in income will lead to a fall in the demand for can in the market. This explains how objective a positive Economics after it has been tested or experimented by fact.

If the government increases the tax on beer the profit of breweries will fall.

Feature:

1. It expresses what is, and not what ought or be.

2. It is based on fact and not on fairness.

3. It deals with actual situations and not on perceptions.

4. It can be verified with actual data hence it is scientific.

5. It does not include value judgement in its analysis and conclusion.

6. It deals with how Economic problem is solved and not how it should be solved.

7. It is objective and not subjective.

Normative Economics: Attempts to prescribe how the Economics works is based on the opinion of the Economist making the prescription. In other words, Normative Economics involve value judgement which maybe informed by religious beliefs, cultural orientation, political inclination, race or any other personal or group criteria. The underlying factors in normative Economics are ethical standard and Norms of fairness.

E.g (a) Government should raise Minimum wage. (B) Capitalism is the best Economics system for any country

(C) The retirement age of all workers in Nigeria should be 70 years and not university lecturers alone.

Methods used in Economics:

1. Deductive method.

2. Inductive method.

> **Deductive Method**: this involves reasoning or inference from the general to the particular, From something big to something small, from universal to individual

Steps involved in Deductive approach:

1. Selecting the problem

2. Formulation of assumptions based on the problems to be explored.

3. The Formulation of hypothesis through the process of logical reasoning.

4. Verifying the hypothesis.

H.B Hypothesis are statement you want to proves whether they are real or not

Inductive approach: this is the process of reasoning from a part to the whole, from a smaller aspect to a bigger one.

Steps Involved in Inductive approach:

1. The problem statement

2. Data

3. Observation

4. Generalisation

Credits:

Psalmist ✨

📘PHARDZ

Economic System

It comprises of individuals, firms and government (economic agent). It explains how resources are been shared or allocated in an economy amongst various Economic agent. This refers to the mode of production and distribution which takes place in an economy.

Basic Economics problem

1. What to be produced?

2. How will it be produced?

3. To whom will it be produced?

Types of Economics System

A. Socialist Economic system:

Command or planned economic system in which the means of production are owned and managed by the state. Private ownership of means of production is not allowed however individual can have personal property which is transferable. In socialist economy, economic activities are carried out mainly for social gain and not for personal Interest

Characteristics of Socialist Economy

1. Means of production are owned by the state

2. Economic activity are planned by the central planning authority

3. Absence of competition

4. Equal opportunity for all.

5. No economic freedom for individual or the people.

Advantages of Socialism

1. Social benefit: Promotion of the welfarism of the citizens

2. Rational allocation of resources

3. Full employment of Man Power.

4. Absence of anti-social activities

Disadvantage

1. No room for initiatives

2. Loss of economic freedom

3. Lack of incentive to work hard

4. There is cohesion and compulsion.

5. It's against human nature.

B. Capitalist Economic system

It is that part of Economics System where the means of production are owned and managed by private individual and institution. This is an economic individualism where the individuals are the ones to decide what and how much to produce, production techniques to use, while the market forces of demand and supply (price mechanism) will distribute the goods and services produced.

Characteristics

1. Freedom of enterprise

2. Self interest

3. Competition in the market

4. Economic freedom

5. Consumer sovereignty

6. Price mechanism

Advantage

1. Reduction in the cost of production due to efficiency

2. Efficient control of the production system

4. Consumer choice is given full weight

5. Varieties of products.

Disadvantages

1. Inequality in the description of National wealth.

2. Fluctuations in the level of employment

3. Class conflict

3. Capitals are spent on advertisements

C. Mixed Economic system:

In a mixed economy how will the basic economic problems be answered? This is an economy system that comprises the system that contains the features of both capitalist and the socialist system.

Advantages of Mixed Economy

1. The interest of people is well served

2. Adequate incentives to work hard.

3. Resources maybe properly utilised

4. Rapid development is possible

Disadvantage of Mixed Economy

1. The concentration of wealth in few hands

2. Existence of anti- social activities

3. Wastage of resources.

4. The interest of the common man suffers

Psalmist ✨

INFLATION & DEFLATION

Inflation

Popular View: This school of thought defines inflation as a phenomenon in which theres increase in the general proce level. The phenomenon of rising prices

Monetary view : This school of thought has scholars such as Friedman amongst other scholars defines it as a phenomenon of too much money in circulation in the economy

John Maynard Keynes View

This school of thought supports the view that inflation occurs as a result of excess demand over available supply in a fully employed economy.

Modern View of Inflation

Inflation is divided into two according to the modern economist view, they are;

- Demand pull inflation &
- Cost push inflation

Demand Pull Inflation is said to occur when there's increase in demand for goods and services given a fixed supply.

Cost Push Inflation occurs as a result of increase in the cost of production of goods and services as for every output there's a corresponding input. A good example is a bakery; the output of the bakery is bread, however the producers will need raw materials such as flour, wheat etc labourer, machines, cost of transportation. These are all included in factor input which come at a price. An increase in the cost of these factor input; it'd reflect on the price charged for the output – bread. It is the inflation induced as a result of increase in the cost of production.

The modern economist also recognised that in the short term there's typically a trade off between unemployment and inflation.

Characteristics/ Features of Inflation

1. Inflation is seen as a rise in price level.
2. It is a monetary phenomenon.
3. It can also be seen as an economic phenomenon.
4. It originates within the economic systems and it is as a result of the actions and the interactions of economic forces of demand and supply. It can also occur as

a result of increase in cost of production, expected inflation, hoarding and artificial scarcity, consumer behaviour.

5. It is a dynamic process (a continuous ongoing process) that can be observed over a period of time.
6. It also referred to as a sustained increase on prices over a period of time rather than a temporary oscillation.
7. Inflation strictly starts after full employment.
8. It can be a demand pull or a cost push.
9. It occurs as a result of excess demand; a case where demand exceeds supply.

Types of Inflation

Inflation can be categorised into different types on the basis of;

• Speed

• Inducement

• Time

• Scope

• Government reaction &

• Employment level

On the basis of Speed :

There are different types of inflation under this :- crippling inflation, walking inflation, running inflation and galloping or hyper-inflation.

• Crippling inflation is a mild or subtle level of inflation. A gradual increase in general price level. E.g A 5% increase

• Walking Inflation is a just slightly faster in increase in price level than the crippling inflation. E.g 10% increase

• Running inflation is at a faster rate of increase in price level. 15%

• Hyper- Inflation is the most extreme level of inflation where there's skyrocketing increase in the general price level.

On the basis of Inducement:

Wage induced Inflation: An increase in the general price level as a result of rise in wages and salaries without a corresponding increase in production level.

Research on >> Wage inflation spiral

Profit induced Inflation: producers with monopolist production can raise prices in order to increase profit margin.

Scarcity induced Inflation:

Deficit induced inflation: It occurs when fiscal authorities approaches banks to cover up for fiscal budget deficit leading to too much money in circulation without a corresponding increase in production

Currency induced inflation:

Credit induced inflation: Prices rise due to the expansion of credits without a corresponding increase in the quantity of money in circulation.

Foreign trade induced Inflation: A high taste or demand of foreign goods may lead to the domestic market flooded by foreign goods which in turn leads to a fluctuation of the foreign exchange rates impacting the prices of the imported goods.

On the basis of Time:

Peace – time inflation: This is when prices rise during normal period due to increasing government expenditures.

War time inflation: This kind occurs during war when government is engaged in unproductive expenditure; defense or military spending)

Post war inflation: Price increase after the war as pent-up demand is unleashed and heavy war time taxes are withdrawn.

On the basis of Scope

Comprehensive inflation: increase in price of all goods and services in the economy it resulting in the rise in general price level. It is board and all encompassing in nature, covering the whole economy.

Sporadic Inflation: This affects a particular sector in the economy as a result of a cut of in the supply chain in that economy.

On the basis of government reaction:

Open inflation: when price rise without government intervention. Government allows the market forces to take pre-eminence.

Suppressed inflation: When government intervenes in order to curb inflation in the economy. Intervention may include setting price levels, sanctions and thresholds etc.

On the basis of employment

Partial inflation: this occurs when money supply increases causing prices to go up.

Full inflation: When the economy is fully employed, further increase in money supply will not create more, Jobs or employment or boost production, in this case price keeps on increasing while the overall level of employment and output remains the same.

Causes of inflation

1. Increase in demand for goods and services; when there's more money in the economy as a result of expansionary fiscal policies thereby increasing the purchasing power of the households and as such higher demand for goods and services.
2. When government spends on developmental projects,welfare activities, etc.
3. Expansionary fiscal policy (when there is reduction in taxes).
4. Rapid population population growth – could lead to more consumption and increase in demand for goods and services

Supply side

1. Decrease in supply of goods and services.
2. Inflation can occur when there is a shortage in the factors of production e.g raw materials, labour, land.

   *if there is a fall in production level given the demand it will affect prices.

3. Artificial scarcity through hoarding.
4. Trade union activities such as industrial actions and strike.
5. Natural disasters can reduce production e.g drought.
6. War:- resources are diverted towards the creation of war materials or funding the war

Effects of Inflation

Effects on production, Effects on distribution and non economic consequencess

Effect on production

1. Mild inflation – are beneficial to the economy for production if the economy is not a fully employed economy
2. Moderate inflation – increases profit expectations and increases investments leading to higher output and employment.
3. However hyper inflation can be harmful to production because it creates uncertainty to the economy. It disrupts the price system.

Economic Agents Definition

An economic agent is an entity that engages in economic activity. This activity can be buying, selling, or producing goods and services and influencing capital markets. There are four main types of economic agents: **households or individuals**, **businesses**, **governments**, and **central banks**. Each type of economic agent has different objectives. For example, individuals may seek to maximize their utility while firms may seek to maximize their profits.

The household or individual economic agent is a group of people living under the same roof who share common resources. This agent is the most basic in economic activity as they are the consumers of goods and services. On the other hand, businesses are defined as organizations that produce goods and services to sell them to make a profit. The government economic agent is responsible for providing public goods and services and regulating businesses. Central banks are financial institutions that manage a country's money supply and interest rates. They also act as lenders of last resort.

Economic agents impact the economy in various ways. They may impact supply and demand, which in turn can impact prices. They can also impact economic growth and development by investing in human capital or starting new businesses.

Economic Agents Objectives

There are different types of economic agents with differing objectives. Some of these objectives include:

•**Households or individuals**: The objective of households is to maximize their utility, which means they seek to consume goods and services that will give them the most satisfaction.

•**Businesses:** The objective of businesses is to maximize their profits. This maximization means they seek to produce and sell goods and services at the highest price possible while incurring the lowest costs.

•**Governments**: The objective of governments is to provide public goods and services. It is also to stabilize the economy, promote economic growth, and promote the general welfare of citizens.

•**Central banks**: The objective of central banks is to manage a country's money supply and interest rates. They also seek to promote economic stability

Types of Economic Agents and Their Functions

It is essential to thoroughly examine each type of agent to understand the concept of economic agents' function. Each type fulfills a different purpose and role in the economy. Between some of these agents, there is a level of objective overlap. For example, government and central banks are economic agents that influence financial markets but do not directly consume or produce. However, there are still several differences between the four economic agents.

Households and Individuals as Economic Agents

Households and individuals are the most basic economic agents. They are defined as a group of people living under the same roof who share common resources. The household or individual agent is responsible for consumption, meaning they purchase goods and services to satisfy their needs and wants. Households and individuals impact the economy by influencing both demand and supply. Their demand for goods and services affects prices, and their labor supply affects production.

Firms as Economic Agents

Firms, or "businesses," are another type of economic agent. They are defined as an organization that produces goods and services to sell them to make a profit. The business agent is responsible for production. This responsibility for the profit means they combine labor, capital, land, and entrepreneurism to create goods and services. Businesses impact the economy by influencing both demand and supply. Their demand for inputs affects prices, and their supply of goods and services affects production.

Government and Central Banks as Economic Agents

Governments are yet another type of economic agent. They are responsible for providing public goods and services and regulating businesses. They are also responsible for stabilization, which means they use fiscal and monetary policy to maintain economic stability. Governments impact the economy by influencing both demand and supply. Their demand for taxes and regulations affects prices, and their supply of public goods and services affects production.

Central banks are the final type of economic agent. They are financial institutions that manage a country's money supply and interest rates. They also serve as lenders of last resort. Central banks impact the economy by influencing both demand and supply. Their money supply management and interest rates affect prices, and their lending practices affect production.

THE BASICS OF ECONOMIC SYSTEMS AND INSTITUTIONS

An economic system is a system of production, resource allocation, exchange, and distribution of goods and services in a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes, and patterns of consumption that comprise the economic structure of a given community. As such, an economic system is a type of social system.

(1) Classifications of the economy according to ownership of resources
(2) Classifications of the economy according to decision-making

1) Classifications of the economy according to ownership of resources

Capitalism

Capitalism is an economic system characterized by private control and ownership of the factors of production. In capitalism, private individuals control the economic resources, as opposed to government-controlled economies where production and prices are determined centrally. Economist Adam Smith likened free markets to an "invisible hand," guiding producers towards goods and services in demand. Capitalism relies on market competition to set prices and allocate resources, with decision-making and investment primarily driven by owners in financial and capital markets. There are different forms of capitalism, including laissez-faire or free market capitalism, welfare capitalism, and state capitalism. It has evolved over time, spreading globally through processes like globalization.

The emergence of capitalism can be traced back to early Islamic economic policies that influenced trade partners in Europe, leading to the development of capitalist systems. The transition from feudalism to mercantilism and then to industrialization in England and parts of Europe marked significant stages in capitalism's evolution. By the end of the 19th century, capitalism had become the dominant global economic system, propelled further by globalization.

Key features of capitalism include:

1. **Private ownership of means of production:** Individuals or entities own the resources used for production.
2. **Capital accumulation:** Wealth and resources are accumulated for investment and growth.
3. **High level of wage labor:** Workers are employed for wages, contributing to production.
4. **Voluntary production exchange on a market:** Goods and services are exchanged based on voluntary agreements in markets.
5. **Use of the price mechanism:** Prices determine resource allocation among competing uses.
6. **Competitive markets:** Multiple buyers and sellers compete in the market.
7. **Maximization of exchange-values:** Focus is on the value of goods in exchange rather than their use.

8. **Investment for profit:** Capital is invested with the goal of generating returns.
9. **Free market systems:** New entrants can enter markets freely.
10. **Exploitative tendencies:** Capitalism can lead to exploitation of labor for profit.

Consider the List of countries with a trace of capitalism in their economic system are as follows.
Asian Countries
Bahrain, Georgia, Hong Kong, Japan, Kuwait, Mauritius, Singapore, South Korea, Taiwan, Thailand, United Arab Emirates
European countries
Albania, Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Latvia, Macedonia, Malta, Netherlands, Norway, Portugal, Romania, Slovakia, Slovenia, Spain, United Kingdom
African countries
Cape Verde, South Africa, Uganda
North American countries
Barbados, Belize, Canada, El Salvador, Guatemala, Jamaica, Mexico, Panama, United States of America
South American countries
Chile, Peru
Others are
Australia and Samoa

Socialism.

Socialism is a system where the means of production are publicly or collectively owned. It focuses on equality and values workers based on their time input rather than their output. Decisions about production, methods, and distribution are made by a planning authority, making it a planned economy. Individuals rely on the state for necessities like food and healthcare. Examples of socialist societies today include China, Vietnam, North Korea, and Cuba.

State capitalism is when the state controls commercial economic activities or owns major businesses. It can combine elements of capitalism with state ownership or control, sometimes acting like a large corporation. Some argue that countries like China and the former Soviet Union practiced forms of state capitalism.

Welfare capitalism integrates social welfare policies into capitalism, often seen in Northern and Continental Europe. This model, associated with the Nordic model or social market economy, involves businesses providing welfare services to employees. It peaked in the mid-20th century and continues to exist in various forms globally.

(1) Public Ownership:

A socialist economy is characterized by public ownership of the means of production and distribution. There is collective ownership whereby all mines, farms, factories, financial institutions, distributing agencies (internal and external trade, shops, stores, etc.), means of transport and communications, etc. are owned, controlled, and regulated by government departments and state corporations. A small private sector also exists in the form of small business units which are carried on in the villages by local artisans for local consumption.

2. Central Planning: A socialist economy is centrally planned, directed by a central authority that sets objectives and targets for production, allocation, and distribution of resources.

3. **Definite Objectives:** Socialist economies operate with specific socio-economic goals such as full employment, meeting communal demands, equitable income distribution, capital accumulation, and economic development.

4. **Freedom of Consumption:** Consumers in state-owned industries have some choice based on preferences, but production and distribution are regulated by fixed prices and availability of socially useful commodities.

5. **Equality of Income Distribution:** Socialism aims for more equal income distribution by eliminating private ownership and profit motives, with state-managed income used for public services like education, healthcare, and social security.

6. **Planning and Pricing:** Pricing in socialism is controlled by the central authority, with fixed prices for goods and services determined by planning objectives, market prices, and accounting principles guiding production and investment decisions.

Merit of Socialism

1. **Greater Economic Efficiency:** Socialism achieves greater economic efficiency compared to capitalism because the central planning authority regulates production towards chosen goals, ensuring resources are used efficiently. This includes producing essential goods like food, clothing, and housing to meet basic needs effectively.
2. **Greater Welfare with Reduced Income Inequality:** Socialism reduces income inequality by eliminating private ownership and profit motives. Citizens are compensated based on their abilities, education, and training, with all income going to the state for public welfare. This leads to free education, affordable housing, healthcare, and social security.
3. **Absence of Monopolistic Practices:** Socialism eliminates monopolies found in capitalism since all means of production are state-owned. This absence of competition and monopoly leads to fairer pricing and higher-quality goods produced for societal benefit.
4. **Stability and Reduced Business Fluctuations:** A socialist economy experiences economic stability as production and consumption are regulated by the central authority according to the plan's objectives. This control reduces overproduction and unemployment, contributing to a more stable economic environment.

Demerit of Socialism

1. **Loss of Consumers' Sovereignty:** In a socialist economy, consumers lose their sovereignty as they cannot freely purchase commodities of their choice. They are restricted to goods available in state-run stores, often with fixed quantities determined by the government.

2. **No Freedom of Occupation:** Individuals lack freedom of occupation in a socialist society. The state assigns jobs, and individuals cannot change or leave them without state approval. Work locations are also determined by the state, with all occupational movements controlled by government sanction.

3. **Misallocation of Resources:** Socialism can lead to arbitrary resource allocation as decisions are made centrally. The central planning authority may make errors in resource allocation, relying on trial and error methods.

4. **Bureaucracy:** Socialism is often criticized for its bureaucratic nature, operating like a machine. This system may lack the initiative to motivate individuals to work hard, as people may work primarily due to fear of authority rather than personal gain or interest.

Communism and its Features

Communism, also known as a command system, is an economic and political ideology where the government owns most factors of production and directs the allocation of resources, as well as determining which products and services will be provided. It is based on communal ownership and the idea of eliminating social classes. In contrast to capitalism, which revolves around private ownership and profit motives, communism seeks to address issues of exploitation and inequality by advocating for a society where each person contributes according to their abilities and receives according to their needs, as encapsulated in the slogan "From each according to his ability, to each according to his need."

However, while communism holds a utopian vision of equality and abundance, its practical implementation has often been associated with authoritarian governance, human rights violations, and economic inefficiencies. One of its fundamental challenges lies in the knowledge problem, where central planners struggle to efficiently allocate resources without the guidance of market prices, leading to surpluses and shortages.

Communism traces its roots to thinkers like Karl Marx and Friedrich Engels, who aimed to end the exploitation of the working class by the capitalist bourgeoisie. They envisioned a society where class distinctions would be eliminated, and resources would be shared equally among all members. Marx believed that a political revolution was necessary to overthrow the capitalist system, which he saw as inherently oppressive and exploitative.

Communist countries, such as Russia and China, often implemented centrally planned economies, where the government had significant control over production, distribution, and pricing decisions. This approach aimed to achieve societal goals through centralized direction, but it also faced criticisms for stifling individual initiative and creativity, as well as leading to economic inefficiencies and shortages.

The following are features of communism:

1. Government owns land
2. Government owns capital
3. Government allocates all scarce resources.
4. Government controls prices for labour and goods.

5. Government determines what, how and for whom to produce.
6. It is authoritarian in nature
7. There is no class in the society

Advantages of Communism:

1. **Internal Stability:** Communism fosters internal stability as it rewards active participation and discourages non-participation, creating an incentive for individuals to contribute to the system.
2. **Common Goals and Cooperation:** Communism requires common goals and agreed-upon rules for resource allocation, leading to a spirit of cooperation and stronger social communities. This shared sense of purpose can contribute to a stable economy.
3. **Efficient Resource Distribution:** Healthy communist systems are often efficient at distributing resources within their localized areas, especially during times of need, due to their emphasis on cooperation and collective responsibility.

Disadvantages of Communism:

1. **Diverse Populations:** Large or geographically diverse populations in communist systems can struggle to maintain a common goal or set of rules, leading to challenges in coordinating shared efforts and resources.
2. **Hierarchy and Fairness:** In diverse societies, hierarchical structures can emerge, leading to perceptions of unfair distribution of work and resources. This can destabilize communist societies by undermining the sense of fairness and cooperation.
3. **Cultural Homogeneity and Competition:** Communistic systems may block external cultures and competition to maintain homogeneity, but this can weaken their ability to learn from or compete with external economies, limiting their growth and adaptability.

Mixed Economy

A mixed economy is an economic system that combines elements of both market-based capitalism and government intervention. It involves a mixture of private and public ownership of the means of production and distribution, as well as a blend of free markets and economic planning. In a mixed economy, there is private ownership of businesses and resources, with markets playing a dominant role in economic coordination.

However, unlike in a purely free-market economy, the government in a mixed economy wields indirect macroeconomic influence through fiscal and monetary policies. These policies are designed to counteract economic downturns, address issues like unemployment and financial crises, and mitigate growing income and wealth disparities. The government also plays a role in providing public goods and promoting social welfare through various interventions.

In some mixed economies, there may be a significant presence of state-run enterprises alongside private businesses. This blend of private and public ownership, along with regulatory oversight and government interventions, aims to strike a balance between market forces and social objectives. Countries like India and Nigeria are examples of mixed economies, where both private enterprise and government initiatives contribute to economic development and social welfare.

Features of mixed economy

1. Public Sector:

The public sector is under the control and direction of the state. All decisions regarding what, how and for whom to produce are taken by the state. Public utilities, such as rail construction, road building, canals, power supply, means of communication, etc., are included in the public sector projects. They are operated for public welfare and not for profit motive. The public sector also operates basic, heavy, and strategic and defense production industries which require large investment and have long gestation period. But they earn profits like private industries which are utilized for capital formation.

2. Private Sector:

There is a private sector in which production and distribution of goods and services are done by private enterprises. This sector operates in farming, plantations, mines, internal and external trade, and in the manufacture of consumer goods and some capital goods. This sector operates under state regulations in the interest of public welfare. In certain fields of production, both public and private sectors operate in a competitive spirit. This is again in the interest of the society.

3. Joint Sector:

A mixed economy also has a joint sector which is run jointly by the state i.e public and private enterprises. It is organized on the basis of a joint stock company where the majority shares are held by the state.

4. Cooperative Sector:

Under a mixed economy, a sector is formed on cooperative principles. The state provides financial assistance to the people for organizing cooperative societies, usually in dairying, storage, processing, farming, and purchase of consumer goods.

5. Freedom and Control:

A mixed economy possesses the freedom to hold private property, to earn profit, to consume, produce and distribute, and to have any occupation. But if these freedoms adversely affect public welfare, they are regulated and controlled by the state.

6. Economic Planning:

There is a central planning authority in a mixed economy. A mixed economy operates on the basis of some economic plan. All sectors of the economy function according to the objectives, priorities and targets laid down in the plan. In order to fulfill them, the state regulates the economy through various monetary, fiscal and direct control measures. The aim is to check the evils of the price mechanism.

Merits of Mixed Economy:

1. **Best Allocation of Resources:** Combination of market forces and government intervention leads to optimal resource allocation.
2. **Balance between Sectors:** Maintains a healthy balance between public and private sectors, leveraging their respective strengths.
3. **Welfare State:** Prioritizes social welfare through measures like social security and public works programs.
4. **Social Security:** Provides safety nets for citizens, especially the disadvantaged and vulnerable.
5. **Freedom of Criticism:** Allows citizens to critique and influence policies, fostering transparency and accountability.

Demerits of Mixed Economy:

1. **Non-Cooperation Between Sectors:** Tensions or lack of cooperation between public and private sectors can hinder progress.
2. **Inefficient Public Sector:** Public enterprises may face inefficiencies compared to private counterparts.
3. **Economic Fluctuations:** Mixed economies are susceptible to economic fluctuations and crises.
4. **Decision-Making Challenges:** Decision-making processes may be slow or hampered by bureaucracy and regulations.
5. **Uneven Resource Distribution:** Resources and benefits may not be evenly distributed across society, leading to disparities.

(2) Classification of the economy according to decision-making

Market Economy

A market economy is an economic system guided by the interactions of citizens and businesses, with minimal government intervention compared to a centrally planned economy. In this system, supply and demand largely determine economic decisions and the pricing of goods and services. Market economies emphasize the role of private ownership, competition, and market forces like supply and demand in driving economic activity. Unlike centrally planned economies, where government decisions dominate, market economies allow buyers and sellers to determine "what to produce," "how to produce," and "for whom to produce." This system is prevalent in most developed nations today, often allowing market forces to dictate economic activities while engaging in limited government intervention for stability. The shift towards market economies from command economies has been notable since the late 1970s, with countries like Mexico and Japan increasingly adopting market mechanisms.

Features of market economy

1. Free-enterprise: Market economies promote free enterprise, allowing individuals and businesses to operate with minimal government control, encouraging innovation and entrepreneurship.

2. Free-market: These economies operate with a free market system, where prices for goods and services are determined by supply and demand, fostering efficient allocation of resources.

3. Self-adjusting: Market economies have a self-adjusting nature, where market forces automatically respond to changes in supply, demand, and external factors, leading to economic equilibrium.

4. Self-interests: Individuals and businesses in market economies act in their self-interests, seeking to maximize profits and efficiency, which contributes to overall economic growth.

5. Self-regulating economy: The market itself acts as a regulator, adjusting prices, production levels, and resource allocation based on market conditions and consumer preferences.

6. Market rivalry and competition: Competition among businesses in a market economy fosters innovation, quality improvement, and cost-efficiency, benefiting consumers and driving economic progress.

7. Little government intervention: Market economies limit government involvement in economic activities, relying on market mechanisms to allocate resources and determine production and consumption patterns.

8. Private ownership of resources: Private individuals and businesses own the majority of resources, including land, capital, and labor, promoting individual initiative and responsibility.

9. Private and public resource allocation: While most resources are privately owned, some sectors may involve public ownership or partnership, such as infrastructure projects or essential services.
10. Consumer Sovereignty: Market economies prioritize consumer sovereignty, where consumer preferences and choices drive production decisions, leading to a wide range of goods and services to meet diverse needs and wants.
11. Price mechanism: Prices in a market economy are determined by the interaction of supply and demand, serving as signals for resource allocation, production levels, and consumer behavior.

Command economy.

A command economy, also known as a planned economy, is a system where the government makes decisions about what goods should be produced, how much should be produced, and the prices at which goods will be sold, rather than relying on the free market. This system is a characteristic of communist societies like China, Cuba, North Korea, and the former Soviet Union.

Unlike free-market economies where prices signal producers on what to create and in what quantities, command economies face challenges in efficiently allocating goods due to the knowledge problem, leading to shortages and surpluses. In a command economy, the government determines production plans annually, specifying details like the quantity and types of products to be produced. Penalties and rewards are often tied to meeting or exceeding production quotas.

One notable example of a command economy was seen in the former Soviet Union, where detailed plans governed production, including resource allocation and production methods. However, discrepancies often arose between planned production and actual feasibility, leading to unintended consequences and inefficiencies. Despite the central planning of production and resources, command economies typically did not directly address the "for whom" question, often resulting in queuing for goods and services.

In some aspects, command economies can be observed in certain sectors of market economies. For instance, the military operates as a command economy within the United States, where commanders make decisions that others are expected to follow. Additionally, government control over land in certain regions involves command economy principles, dictating activities like grazing rights, timber cutting, and access to natural resources.

Features of command economy

1. Public Ownership

2. Central Planning

3. Definite Objectives

4. Freedom of Consumption

5. Equality of Income Distribution

6. Planning and same pricing process

7. Government owns land

8. Government owns capital

9. Government allocates all scarce resources.

10. Government controls prices for labour and goods.

11 Government determines what, how and for whom to produce.

12. It is authoritarian in nature

13 There is no class in the society

Planned and Unplanned Economy

Our discussion here is centered on new nomenclature given to command and market economies known as planned and unplanned economies. Globalisation, market competitions, efficient allocation of resources among citizens as well as taken economic decision has forced many countries of the world to adjust their economic system to suite their taste and as such given it names. This is also a refection as to the contributions of reputable scholars in the field of economics. Hence our discussion shall be on planned and unplanned economy.

Under a Planned economy which sometimes referred to as a command economy, governments own all of the factors of production such as land, capital and resources, and government officials determine when, where and how much is produced at any one time. The most famous contemporary example of a command economy was that of the former Soviet Union, which operated under a Communist system. Since decision-making is centralized in a planned economy, the government controls all of the supply and sets all of the demand. Prices cannot rise naturally like in a market or unplanned economy, so prices in the economy must be set by government officials. In a planned economy, macro-economic and political considerations determine resource allocation, whereas in a market economy, the profits and losses of individuals and firms determine resource allocation. Therefore, in a planned economy, the factors of production are owned and managed by the government. Thus the Government decides what to produce, how much to produce and for whom to produce. The following are the features of planned economy.

Features of planned economy:

1. All resources are owned and managed by the government.

2. There is no Consumer or producer sovereignty.

3. The market forces are not allowed to set the price of the goods and services.

4. Profit is not the main objective.

5. The government aims to provide goods and services to everybody.

6. Government decides what to produce, how much to produce and for whom to produce.

Advantages of planned economy

1. Prices are kept under control and thus everybody can afford to consume goods and services.

2. There is less inequality of wealth.

3. There is no duplication as the allocation of resources is centrally planned.

4. Low level of unemployment as the government aims to provide employment to everybody.

5. Elimination of waste resulting from competition between firms.

Disadvantages of planned economy

1. Consumers cannot choose and only those goods and services are produced which are decided by the government.

2. Lack of profit motive may lead to firms being inefficient.

3. Lot of time and money is wasted in communicating instructions from the government to the firms.

Examples of Planned economies are;

North Korea, Cuba, Turkmenistan, Myanmar, Belarus, Laos, Libya, Iran

In some instances, the term planned economy has been used to refer to national economic development plans and state-directed investment in market economies.

Unplanned economy

An unplanned economy on the other hand is an economy where economic decisions regarding production, investment and resource allocation are not linked together through conscious economic planning. This may refer to subsistence-level economies, systems of barter or to more complex arrangements such as market economies, although there may be a significant amount of planning within firms in market and mixed-market economies.,

Market economies and command economies occupy two polar extremes in the organization of economic activity. The primary differences lie in division of labor or factors of production and the mechanisms that determine prices. The activity in a market economy is unplanned; it is not organized by any central authority and is determined by the supply and demand of goods and services. Alternatively, a command economy is organized by government officials who also own and direct the factors of production.

The two fundamental aspects of market economies are:

1. Private ownership of the means of production

2. Voluntary exchanges of values

The most common title associated with a market economy is capitalism. Individuals and businesses own the resources and are free to exchange and contract with each other without decree from government authority. The collective term for these uncoordinated exchanges is the "market." Prices arise naturally in a unplanned economy based on supply and demand. Consumer preferences and resource scarcity determine which goods are produced and in what quantity; the prices in a market economy act as signals to producers and consumers who use these price signals to help make decisions. Governments play a minor role in direction of economic activity. Therefore the central thought of this system is that it should be the producers and consumers who decide how to utilize the resources. Thus, the market forces decide what to produce, how much to produce and for whom to produce. Let us now look at the features, merits and demerits of

Unplanned economy.

Features of unplanned economy

1. All resources are privately owned by people and firms.

2. Profit is the main motive of all businesses.

3. There is no government interference in the business activities.

4. Producers are free to produce what they want, how much they want and for whom they want to produce.

5. Consumers are free to choose.

6. Prices are decided by the Price mechanism i.e. the demand and supply of the good/service.

Advantages of unplanned economy

1. Free market responds quickly to the people‘s wants: Thus, firms will produce what people want because it is more profitable whereas anything which is not demanded will be taken out of production.

2. Wide Variety of goods and services: There will be wide variety of goods and services available in the market to suit everybody‘s taste.

3. Efficient use of resources encouraged: Profit being the sole motive, will drive the firms to produce goods and services at lower cost and more efficiently. This will lead to firms using latest technology to produce at lower costs.

Disadvantages of unplanned economy

1. Unemployment: Businesses in the market economy will only employ those factors of production which will be profitable and thus we may find a lot of unemployment as more machines and less labour will be used to cut cost.

2. Certain goods and services may not be provided: There may be certain goods which might not be provided for by the Market economy. Those which people might want to use but don‘t want to

pay may not be available because the firms may not find it profitable to produce. For example, Public goods, such as, street lighting.

3. Consumption of harmful goods may be encouraged: Free market economy might find it profitable to provide goods which are in demand and ignore the fact that they might be

harmful for the society.

4. Ignore Social cost: In the desire to maximized profits businesses might not consider the social effects of their actions.

Countries like the USA, Canada, UK, Germany, France, Japan, China, South Korea, South Africa, Singapore, Malaysia, Hong Kong, Egypt, Nigeria, to mention but few, are few examples of economies with an unplanned system

Inflation

Inflation is the sustained increase in the general price levels of goods and services over time. during the period of inflation, there is a continuous fall in the purchasing power of money – that is the quantity of goods and services which a unit of money can buy gets smaller and smaller.

Inflation describes a persistent and appreciable increase in the general price level. The Inflation rate is measured as a percentage change in a price index, such as the consumer price index. Inflation can also be refers to a high and persistent rise in the general prices of goods and services which is due mainly to the large volume of money in circulation relative to goods and services produced. From these definitions, it means that inflation can occur if:

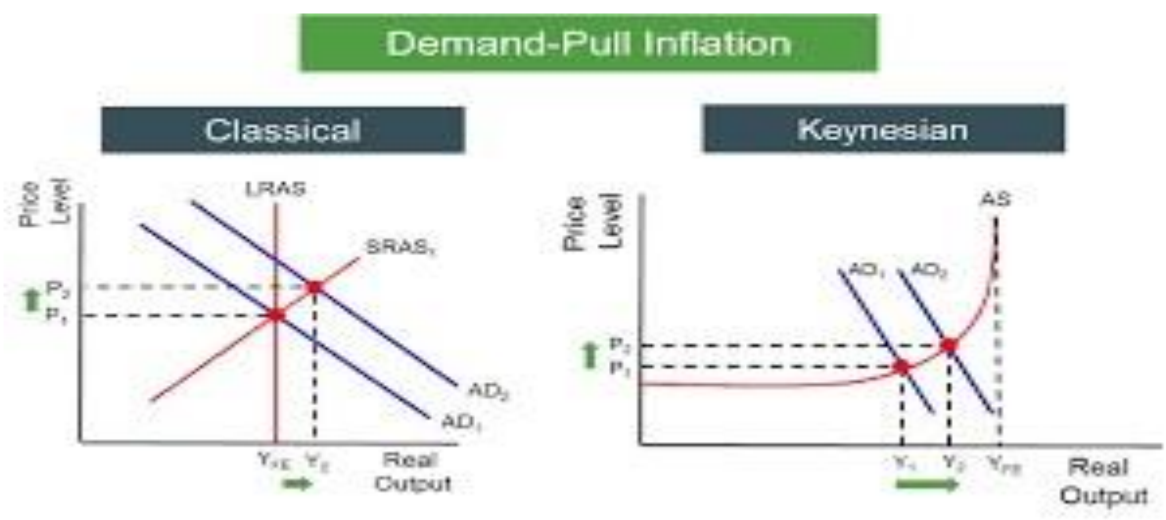
- There in an increase in the supply of money not matched with a corresponding increase in goods and services.

- There is a lower increase in the production of goods and services than money supply.

- There is a greater increase in demand for goods and services than physical production of goods and services.

Types of Inflation

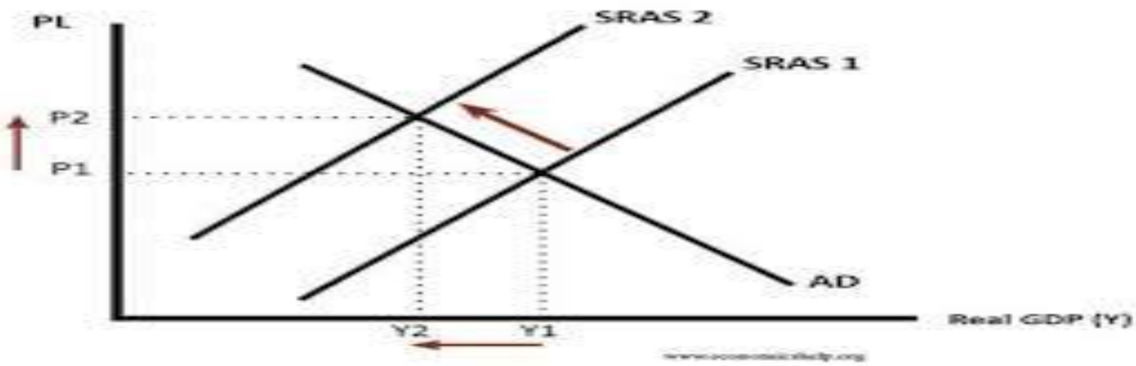
a) **Demand Pull Inflation:** it describes a sustained increase in general price level that is caused by a permanent increase in nominal aggregate demand. Simply, is can be viewed as an inflation that occurs as a result of increase in aggregate demand. When aggregate demand exceeds aggregate supply at current prices, prices are pulled upwards to equilibrate aggregate supply and demand.



b)

b) **Cost Push or Supply Inflation:** it is a situation where the process of increasing price level is caused by increasing costs of production which push up prices.

Cost push inflation is also referred to as supply inflation. Price level in this case increases due to an increase in business costs. These increases in prices occur in the face of high unemployment and slacken resource utilization. The increase in cost of production causes supply of final goods and services to fall. This creates excess aggregate demand and a new equilibrium is attained at a higher price level.



c) **Creeping Inflation:** when the rise in prices is very slow like that of a snail, it is called creeping inflation or a sustained rise in prices of annual increase of less than 3% per annum is characterised as creeping inflation and it essential for economic growth.

d) Hyper Inflation: This is the extreme form of inflation in which the value of money loses its purchasing power. Money thereby loses its function as a store of value. The increase in the economy"s output is impossible because of the breakdown in monetary mechanism. It is associated by an increase in the supply of money. It is usually experienced during war when labour and other resources are channelled towards the persecution of war.

Measurement of Inflation

Three main measures of inflation are: Consumer price index (CPI), Wholesale Price Index (WPI), and GNP implicit price deflator.

Consumer price index (CPI)

This is an index designed to measure the average change over time in the prices paid by the final consumers for a specified basket of goods and services. The CPI measures changes in the cost of living of people resulting from changes in the retail prices. There are a number of approaches to the calculation of the CPI, we employ the Laspreyre's formula. It is a base year weighted price index in which the expenditure in the current year is calculated at the current year prices, but with reference to the base year quantities. The general formula for constructing the CPI using the Laspeyre's approach is

$$\text{CPI} = \frac{\sum P_1 Q_0}{P_0 Q_0}$$

$\sum$ = The sum of

P_1 = prices of the various goods and services in the current year t

P_0 = prices of the various goods and services in the base year

Q_0 = quantities of the various goods and services in the base year

Consumer price indices are frequently quoted by labour unions in wage negotiations and are used by the government in formulating prices and income policy, taxation policy as well as for deflation of income and value series in national accounts. The CPI is alternatively refered to as the retail price index and the cost of living index.

The Wholesale price index (WPI): This index is calculated from the raw material prices and the manufacturer's output price. The WPI provide a guide on what is likely to be the trend of the consumer price index in the future.

The GNP implicit price deflator: This measures changes in the prices of all goods and services produced in the economy between one year and the other. It is the most accurate measure of inflation because it considers the economy as a whole given the difference between nominal GDP and real GNP.

CAUSES, EFFECTS AND CONTROL OF INFLATION

Causes of Inflation

Inflation is the result of disequilibrium between demand and supply forces and is attributed to (a) an increase in the demand for goods and services in the country, and (b) a decrease in the supply of goods in the economy.

Factors Causing Increase in Demand

Various factors responsible for an increase in aggregate demand for goods and services are as follows.

1. Increase in Money Supply. An increase in the money supply leads to an increase in money income. The increase in money income raises the monetary demand for goods and services. The supply of money increases when (a) the government resorts to deficit financing i.e. printing of more currency or (b) the banks expand credit.

2. Increase in Government Expenditure. An increase in government expenditure as a result of the outbreak of development and welfare activities causes an increase in aggregate demand for goods and services in the economy.

3. Increase in Private Expenditure. An expansion of private expenditure (both consumption and investment) increases the aggregate demand in the economy. During the period of good business expectations, businessmen start investing more and more funds in new enterprises, thus increasing the demand for factors of production. This results in an increase in factor prices. The increased factor incomes raise the expenditure on consumption goods.

4. Reduction in Taxation. Reduction in taxation can also be an important cause for the generation of excess demand in the economy. When the government reduces taxes, it

increases the disposable income of the people, which, in turn, raises the demand for goods and services.

5. Increase in Exports. When the foreign demand for domestically produced goods increases, it raises the earnings of exporting industries. This, in turn, will increase demand for goods and services within the economy.
6. Increase in Population. A rapid growth of population raises the level of aggregate demand in the economy because of the increase in consumption, investment, government expenditure, and net foreign expenditure. This leads to an inflationary rise in prices due to excessive demand.
7. Paying off Debts. When the government pays off its old debts to the public, it results in an increase in purchasing power with the public. This will be used to buy more goods and services for consumption purposes, thus increasing the aggregate demand in the economy.
8. Black Money. Black money means the money earned through illegal transactions and tax evasion. Such money is generally spent on conspicuous consumption, while raising the aggregate demand and hence the price level.

Factors Causing Decrease in Supply

Various factors responsible for reducing the supply of goods and services in the economy are given below:

1. Scarcity of Factors of Production. On the supply side, inflation may occur due to the scarcity of factors of production, such as labor, capital equipment, raw materials, etc. These shortages are bound to reduce the production of goods and services for consumption purposes and thereby the price level.
2. Hoarding. At a time of shortages and rising prices, there is a tendency on the part of traders and businessmen to hoard essential goods for earning profits in the future. This causes scarcity and a rise in prices of these goods in the market.
3. Trade Union Activities. Trade union activities are responsible for inflationary pressures in two ways: (a) Trade union activities (i.e. strikes) often lead to stoppage of work, decline in production, and rise in prices (b) If trade unions succeed in raising wages of the workers more than their productivity, this will push up the cost of production and lead the producers to raise the prices of their products.
4. Natural Calamities. Natural calamities also create inflationary conditions by reducing the production in the economy. Floods and droughts adversely affect the supply of products and raise their prices.
5. Increase in Exports. An increase in exports reduces the stock of goods available for domestic consumption. This creates a situation of shortages in the economy giving rise to inflationary pressures.

6. Law of Diminishing Returns. The law of diminishing returns operates when production is increased by employing more and more variable factors with fixed factors and given technology. As a result of this law, the cost per unit of production increases, thus leading to a rise in the prices of production.

7. War. During the war period, economic resources are diverted to the production of war materials. This reduces the normal supply of goods and services for civilian consumption and this leads to the rise in the price level.

8. International Causes. In modern times, a major cause of inflationary rise in prices in most of the countries is the international rise in the prices of basic materials (e.g. petrol) used in almost all the industrial materials.

Effects of Inflation

Inflation is good so long as it is well under control and increases output and employment. It becomes harmful once it goes out of because then it robs Peter to pay Paul and takes not account of the basic control principle of social equality. According to C.N. Vakil, "Inflation may be compared to robber. Both deprive the victim of some possession with the difference that robber is visible, inflation in invisible; the robber's victim may be one or few at a time, the victim of inflation is the whole nation, the robber may be dragged to a court of law, inflation is legal".

Inflation has wide-ranging influence on economic, social, moral, and political life of the country. Its various effects are discussed below.

A) Effects on Product

According to Keynes, moderate or creeping inflation has favorable effect on production particularly when there are unemployed resources in the country. Rising prices increase the profit expectations of entrepreneurs because the prices increase more rapidly than the cost of the production. They are induced to step up investment, and, as a result, output and employment increase. Hyper or galloping inflation, on the other hand, creates the uncertainty which is inimical to Thus, while mild inflation is favorable to production and employment production particularly before full employment, hyperinflation is generally harmful for the economy. The adverse effects of inflation on production stated below are:

1. Disrupt Price System. Inflation disrupts the smooth working of the price mechanism, creates rigidities and results in wrong allocation of resources.

2. Reduces Saving. Inflation adversely affects saving and capital accumulation. When prices increase, the purchasing power of money falls which means more money is required to buy the same quantity of goods. This reduces saving.

3. Discourages Foreign Capital. Inflation not only reduces domestic saving, it also discourages the inflow of foreign capital into the country. If the value of money falls considerably, it may even drive out the foreign capital invested in the country.

4. Encourages Hoarding. When prices increase, hoarding of larger stocks of goods becomes profitable. As a consequence of hoarding, the available supply of goods in relation to increasing monetary demand decreases. This results in black marketing and causes further price-spiral.

5. Encourages Speculation Activities. Inflation promotes speculative activities on account of uncertainty created by continually rising prices. Instead of earning profits though genuine productive activity, the businessmen find it easier to make quick profits through speculative activities.

6. Reduces Volume of production. Inflation reduces the volume of production because (a) capital accumulation has slowed down and (b) business uncertainty discourages entrepreneurs from taking business risks in production.

7. Affects Pattern of Production. Inflation adversely affects the pattern of production by diverting the resources from the production of essential goods to that of non-essential goods or luxuries because the rich, whose incomes increase more rapidly demand luxury goods.

8. Quality Fall. Inflation creates a sellers market in which sellers have command on prices because of excessive demand. In such a market, any thing can be sold. Since the producer's interest is only higher profits, they will not care for the quality.

B) Effects on Distribution

Inflation results in redistribution of income and wealth because the prices of all the factors of production do not increase in the proportion. Generally, the flexible income groups, such as businessmen, same traders, merchants, speculators gain during inflation due to windfall profits that arise because prices rise faster than the cost of production. On the other hand, the fixed income groups, such as workers, salaried persons, teachers, pensioners, interest, and rent earners, are always the losers during inflation because their incomes do not increase as fast as the prices. Inflation is unjust because it puts an economic burden on those sections of society who are least able to bear it. The effects of inflation on different groups of society are as follows.

1. Debtors and Creditors. During inflation, the debtors are the gainers and the creditors are the losers. The debtors stand to gain because they had borrowed when the purchasing power of money was high and now return the loans when the purchasing power of money is low due to inflation. The creditors, on the other hand, stand to lose because they get back less in terms of goods and services than what they had lent.

2. Wage and Salary Earners. Wage and salary earners usually suffer during inflation because (a) wages and salaries do not rise in the same proportion in which the prices or the cost of living rises and (b) there is a lag between a rise in the price level and a rise in wage and salary. Among workers, those who have formed trade unions, stand to lose less than those who are unorganized.

3. Fixed Income Groups. The fixed-income groups are the worst sufferers during inflation. Persons who live on past saving, pensioners, interest and rent earners suffer during periods of rising prices because their incomes remain fixed.
4. Business Community. The business community, i.e., the producers, traders, entrepreneurs, speculators, etc., stand to gain during inflation, (a) They earn windfall profits because prices rise at a faster rate than the cost of production (b) They gain because the prices of their inventories go up, thus increasing their profits, (c) They also gain because they are normally borrowers of money for business purposes.
5. Investors. The effect of inflation on investors depends on in which asset the money is invested. If the investors invest their money in equities, they are gainers because of the rise in profit. If the investors invest their money in debentures and fixed-income-bearing securities bonds, etc, they are the loser because income remains fixed.
6. Farmers. Farmers generally gain during inflation because the prices of the farm products increase faster than the cost of production, thus, leading to higher profits during inflation. Thus inflation redistributes income and wealth in such a way as to harm the interests of the consumers, creditors, small investors, laborers, middle class, and fixed income groups and to favor the businessmen, traders, debtors, farmers etc. Inflation, is society unjust because it makes the rich richer and the poor poorer; it transfers wealth from those who have less of it to those who have already too much of it.

C) Non-Economic Consequences

Inflation has far-reaching social, moral, and political consequences:

1. Social Effects. Inflation is socially unjust and inequitable because it leads to redistribution of income and wealth in favor of the rich. This widens the gap between haves and have-nots and creates conflict and tension in society.
2. Moral Effects. Inflation adversely affects business morality and ethics. It encourages black marketing and enables the businessmen to reap windfall gains by undesirable means In order to increase the profit margin, the producers reduce the quality by the introduction of adulteration in their products.
3. Political Effect. Inflation also disrupts the political life of a country. It corrupts the politicians and weakens the political discipline. Again, social inequality and moral degradation resulting from inflationary pressures lead to general discontentment in the public which may result in the loss of faith in the government.

Control of Inflation

The cumulative nature of the inflationary process and its socio-economic effects clearly indicate that appropriate measures should be taken to control inflation in its early stage. If it is not checked in the beginning, it may develop into hyperinflation with its dangerous effects on the economy. Since inflation is mainly caused by an excess of effective demand for goods and services at the full employment level compared to the available supply of goods and services, measures to control inflation involve reduction in total demand on the one hand and increasing output on the other hand. Broadly, the measures against inflation can be divided into: (a) Monetary policy, (b) Fiscal policy, (c) Direct controls, and (d) Other measures.

A) Monetary Policy

Monetary policy is adopted by the monetary authority or the central bank of a country to influence the supply of money and credit by changing interest rate structure and availability of credit. Various monetary measures to control inflation are explained below:

1. Increasing Bank Rate: The bank rate is the rate at which the central bank lends money to the commercial banks. An increase in the bank rate leads to an increase in the interest rate charged by commercial banks, which, in turn, discourages borrowing by businessmen and consumers. This will reduce the money supply with the public and thus control the inflationary pressure.

2. Sale of Government Securities: By selling government securities in the open market, the central bank directly reduces the cash reserves of the commercial banks because the central bank must be paid from these cash reserves. The fall in the cash reserves compels the banks to reduce their lending activities. This will reduce the money supply and hence the inflationary pressures in the economy.

3. Higher Reserve Ratio: Another monetary measure to check inflation is to increase the minimum reserve ratio. An increase in the minimum reserve ratio means that the member banks are required to keep larger reserves with the central bank, reducing the deposits of the banks and thus limiting their power to create credit. Restrictions on credit expansion will control inflation.

4. Selective Credit Control: The purpose of selective credit control measures is to influence a specific type of credit while leaving other types of credit unaffected. Such selective measures are particularly important for developing economies in which there is an increasing need for credit expansion for growth purposes and also a need for checking inflationary tendencies. In such a situation, selective credit control measures can direct the flow of credit from unproductive and inflation-prone sectors towards the productive and growth-oriented sectors. The main selective credit control measures to control inflation are:

i. Consumer Credit Control: This method is adopted during inflation to curb excessive spending by consumers. In advanced countries, most durable consumer goods, such as radios, televisions, refrigerators, etc., are purchased by consumers on installment credit. During inflation, loan facilities for installment buying are reduced to a minimum to check consumption spending. This is done by (a) raising the initial payment, (b) covering a large number of goods, and (c) reducing the length of the payment period.

ii. Higher Margin Requirements: Margin requirement is the difference between the market value of the security and its maximum loan value. A bank does not advance a loan equal to the market value of the security but less. For example, it may lend 600 Naira against the security worth 1000

Naira; thus, the margin requirement in this case is 40%. During inflation, the margin requirement can be raised to reduce the loan one can get on a security.

Limitations of Monetary Policy:

During inflation, a dear money policy is recommended, which aims at restricting the credit creation activities of the commercial banks. But such an anti-inflationary policy suffers from many limitations:

i. Prof. Galbraith mentions three reasons for the ineffectiveness of the dear money policy during inflation: (a) In times of high earnings, i.e., when the marginal efficiency of capital is high, both long as well as short-period investments become relatively insensitive to changes in interest rates, (b) The government fails to come to grips with real investment, (c) Very often, the monetary policy applied is so soft that it has little impact on inflation.

ii. Excess reserves possessed by the commercial banks can make the monetary measures of the central bank to control inflation ineffective. Excess reserves enable the bank to lend more credit even when the credit control measures have been adopted by the central bank.

iii. Monetary measures alone will not be sufficient when there are cost-push inflationary pressures. Along with monetary policy, fiscal policy and income policy are also needed.

iv. If the inflationary price rise is due to scarcity of output, then the monetary policy will not be of much use. In this case, appropriate output policy is required.

v. Monetary policy will also not help in controlling inflation if the inflation is due to deficit financing.

vi. In modern economies, large amounts of near moneys (in the form of securities, bonds, etc.) are in existence, which are highly liquid in nature. In such circumstances, it is not so easy to control the rate of spending merely by controlling the money supply. There is no direct relationship between money supply and the price level.

In short, however, judicious use of monetary policy as a secondary measure has an important role in checking inflationary pressures. The greatest merit of monetary policy is its flexibility. Monetary restrictions, along with other measures, are necessary to quickly and efficiently control inflation.

B) Fiscal Policy

Fiscal policy is the budgetary policy of the government relating to taxes, public expenditure, public borrowing, and deficit financing. The major anti-inflationary fiscal measures include (a) increase in taxation, (b) reduction in public expenditure, (c) increase in public borrowing, and (d) control of deficit financing.

1. Increase in Taxation:

Anti-inflationary tax policy should be directed towards restricting demand without restricting production. Excise duties and sales tax on various goods, for example, take away the buying power from the consumer goods market without discouraging the expanding productive capacity of the economy. Some economists, therefore, prefer progressive direct taxes because such taxes on the one hand, reduce disposable income of the people and, on the other hand, are justified on the basis of social equity.

2. Reduction in Public Expenditure:

During inflation, effective demand is very high due to the expansion of public and private spending. In order to check unregulated private spending, the government should first of all reduce its unproductive expenditure. In fact, during inflation, at the full employment level, the effective demand in relation to the available supply of goods and services is reduced to the extent that expenditure is curtailed. Public expenditure, being autonomous, leads to an initial reduction in it that will lead to a multiple reduction in the total expenditure of the economy. But for certain limitations of this measure: (a) It is not possible to reduce public expenditure related to defense needs, particularly during wartime, (b) Heavy reduction in government expenditure may come into clash with the planned long-run investment programs in a developing economy.

3. Public Borrowing. Public borrowing is another method of controlling inflation. Through public borrowing, the government takes away excess purchasing power from the public. This will reduce aggregate demand and hence the price level. Ordinarily, public borrowing is voluntary, left to the free will of individuals. Voluntary public borrowing may not bring sufficient funds to effectively control the inflationary pressures. In such conditions, compulsory public borrowing is necessary. Through compulsory public borrowing, a certain percentage of wages or salaries is compulsorily deducted in exchange for savings bonds which become redeemable after a few years. In this way, purchasing power can be curtailed for a definite period to curb inflation. Compulsory public borrowing has certain limitations, (a) It involves the element of compulsion on the public, (b) It results in frustration if the government borrows from the poorer sections of the public who cannot contribute to this scheme, (c) The government should avoid paying back the past loans during an inflationary period; otherwise, it will generate further inflation.
4. Control of Deficit Financing. Deficit financing means financing the deficit budget (i.e., excess of government expenditure over its revenue) through printing. Limitation of Fiscal Policy: Fiscal policy, as an anti-inflationary policy, also has certain limitations: (a) Through fiscal measures, various welfare schemes are curtailed to control inflation, which adversely affects the poor people, (b) For the proper implementation of fiscal policy, efficient administration is needed, which is normally found lacking, (c) For fiscal measures to become effective, a stable political setup, political will of the government, and public cooperation are required, (d) Even if these limitations are removed, fiscal policy alone is not sufficient. What is, in fact, needed is the proper coordination of fiscal and monetary measures for controlling inflation.

C) Direct controls refer to the regulatory measures undertaken with the objective of converting open inflation into suppressed inflation. Direct control on prices and rationing of scarce goods are the two such regulatory measures. 1. Direct Controls on Prices. The purpose of price control is to fix an upper limit beyond which the price of a particular commodity is not allowed, and to that extent, inflation is suppressed. 2. Rationing. When the government fixes the quota of certain goods so that each person gets only a limited quantity of the goods, it is called rationing. Rationing becomes necessary when the essential consumer goods are relatively scarce. The purpose of rationing is to divert consumption from those goods whose supply needs to be restricted for some special reason, e.g., to make such commodities available to a large number of people.

According to Kurihara, "rationing should aim at diverting consumption from particular articles whose supply is below normal rather than at controlling aggregate consumption". Thus, rationing aims at achieving the twin objectives of price stability and distributive justice. Limitations of Direct Controls: Various limitations of direct controls are mentioned below: i. Direct controls suppress individual initiative and enterprise: ii. They discourage innovations, i.e., new techniques and new products. iii. They encourage speculative tendencies and create artificial scarcity through large-scale hoardings. If it is expected that a particular commodity is going to be rationed due to scarcity, people tend to hoard large stocks of it, thus making it scarce. iv. The implementation of direct control requires efficient and honest administrative machinery. Generally, direct controls lead to evils like black marketing, corruption, etc. v. As soon as direct controls are removed, great economic disturbance appears. vi. Direct controls have limited applicability. They are considered useful when applied to specific scarcity areas and in extraordinary emergency situations. Serious objections are raised against direct controls during peacetime. vii. According to Keynes, "rationing involves a great deal of waste, both of resources and of employment." Despite these shortcomings, direct controls are considered superior to monetary and fiscal measures. They seem inevitable in modern times to contain inflationary pressures in the economy because of the following reasons: (a) They can be applied easily and quickly and hence produce rapid effects, (b) They are more selective and discriminatory than monetary and fiscal controls, (c) there can be variations in the intensity of operations of direct controls from time to time in the different sectors.

D) Other Measures besides monetary, fiscal, and direct measures, there are some other measures that can be taken to control inflation:

1. Expansion of Output. Inflation arises partly due to the inadequacy of output. But, it is difficult to increase output during an inflationary period because the productive resources have already been fully utilized. Under such conditions when output as a whole cannot be increased, steps should be taken to increase the output of those goods which are sensitive to inflationary pressures. This requires the reallocation of resources from the production of less inflation-sensitive goods (i.e., luxury goods) to the production of more inflation-sensitive goods (i.e., food, clothing, and other essential consumer goods) Such reallocation of resources will keep the prices of essential consumer goods under check by raising their output.

2. Proper Wage Policy. In order to check inflation, it is necessary to control wages and profits and to adopt an appropriate wage and income policy. Wage increases should be allowed to the workers only if their productivity increases; in this way, higher wages will not lead to higher costs and hence higher prices.

3. Encouragement to Saving. An increase in private savings has a disinflationary impact on the economy. Private savings lead to the reduction of expenditure and income of the people, which, in turn, curtails inflationary pressures. The government should, therefore, take steps to encourage private savings.

4. Overvaluation. Overvaluation of domestic currency in terms of foreign currencies also serves to control inflation in three ways: (a) It will discourage exports and thus increase the availability of goods and services in the domestic market (b) It will encourage imports from abroad and thus add to the domestic stock of goods and services, (b) by reducing the prices of foreign materials which are needed in domestic production, it will control the upward cost-price spiral.

5. Population Control. In an overpopulated country like India, measures to check the growth of the population also produce anti-inflationary effects. Effective family planning programs ultimately reduce the increasing pressures on the general demand for goods and services, thus helping to keep the rising prices under control.
6. Indexing. Economists also suggest indexing as an anti-inflationary measure. Indexing refers to monetary corrections by periodic adjustments in money incomes of the people and in the value of financial assets, saving deposits, etc., held by the public in accordance with changes in prices. For example, if the annual price rise is 10%, the money incomes and the value of financial assets should be increased by 10% under the system of indexing.

It is important to note that while these measures can help control inflation to some extent, no single measure alone is sufficient. A combination of monetary, fiscal, direct controls, and other measures, along with proper coordination, is necessary for effective inflation control.

- Unemployment
- The meaning of unemployment
- Types of unemployment
- Causes of unemployment in Nigeria
- Effects of unemployment
- Measures to remove unemployment
- Full employment
- Inflation and unemployment

The meaning of unemployment

Unemployment is defined as the condition of being unemployed, or, it refers to the number or proportion of people in the working population who are unemployed (have no jobs). An unemployed person is one who is an active member of the labour force and is able to and seeks work, but is unable to find work during a specified reference period (a week or a month or a year).

Unemployment simply refers to the condition of one who is capable of working, actively seeking work, but unable to find any work. It is important to note that to be considered unemployed a person must be an active member of the labour force and in search of remunerative work. The term unemployment refers to a situation where a person actively searches for employment but is unable to find work. Unemployment is considered to be a key measure of the health of the economy. Unemployment is a key economic indicator because it signals the ability (or inability) of workers to obtain gainful work and contribute to the productive output of the economy. More unemployed workers mean less total economic production. The unemployment definition does not include people who leave the workforce for reasons such as retirement, higher education, and disability.

Let us divide the total population of a country into four categories:

Category I is comprised of all those economically active people, say between 15 and 65 years, who are currently employed during a specified reference period (a week, or a month, or a year).

Category II represents all those economically active people, say between 15 and 65 years, who are currently unemployed during a specified reference period (a week, or a month, or a year), but are capable of, and are looking for employment.

Category III represents all those people say, between 15 and 65 years, who are neither employed nor are seeking any employment, in other words, those who are not in the labour force.

Category IV represents all those people aged below 15 years and above 65 years, and other people excluded from the above mentioned three categories for any reason.

The total population of a country is the sum of all these four categories: I + II + III + IV; and labour force is defined as I + II.

The unemployment rate is defined as the percentage of the labour force that is unemployed, which can be represented as:

Rate of Unemployment = (II/ I+II) X 100

Simply put, the rate of unemployment equals the ratio of the number of people registered as unemployed and the total labour force multiplied by 100.

Difficulty in measuring unemployment

1. How to determine the accurate number of those who are unemployed
2. How to determine the accurate number of those who are unemployed.

Types of unemployment

Broadly, unemployment can be divided into two types: voluntary, and involuntary, unemployment. Voluntary unemployment arises due to reasons that are specific to an individual, while involuntary unemployment is caused by a large number of socio-economic factors such as structure of the market, level and composition of aggregate demand, government intervention, and so on. Thus, there are different kinds of unemployment depending on the nature, causes, and duration of unemployment.
Let us now discuss various types of unemployment. Unemployment is broadly classified in following categories.
Structural unemployment: This kind of unemployment occurs when there is any change in consumer demand and technology in the economy. For instance, when computers were introduced, many workers were dislodged because of a mismatch between the existing skills of the workers and the requirement of the job. Although jobs were available, there was a demand for a new kind of skill and qualification. So, persons with old skills did not get employment in the changed economic regime, and remain unemployed. This is called structural unemployment.
Cyclical unemployment: When there is an economy-wide decline in aggregate demand for goods and services, employment declines and unemployment correspondingly increases. Therefore, it is sometime referred to as 'demand deficient unemployment'. For instance, during the recent global slowdown, in late 2008, many workers around the globe lost their jobs.
Frictional unemployment: This type of unemployment refers to a transition period of looking for a new job, for different reasons, such as seeking a better job, being fired from a current job, or having voluntarily quit a current job. The period of time between the current to a new job is referred to as frictional, or temporary unemployment.
Seasonal unemployment, a type of frictional unemployment, occurs in specific activities or occupations which are characterized by seasonal work. An example of seasonal unemployment is joblessness during non-cultivation in rural areas.
Residual unemployment: This refers to those who are out of work due to reasons of physical and mental disabilities. This class of unemployed also includes those who are lazy and do not want to work. They fake illness or injury seizing the opportunity of government social security facilities as unemployment benefits.
Natural rate of unemployment: The sum total of frictional and structural unemployment is referred to as the natural rate of unemployment.
Open unemployment: Open unemployment arises when a person, voluntarily or involuntarily, keeps himself or herself out of consideration for certain jobs.
It is important to note that the type and nature of unemployment differ significantly in developing and developed countries. Unemployment in developed countries arises due to the lack of effective demand and/or economic slowdown, recession, or depression. In developing countries, unemployment occurs largely due to lower demand for labor and/or inadequate employment opportunities in the economy. Such a situation occurs due to the subsistence nature of agriculture, a low industrial base, and the small size of the tertiary sector.

All developing countries, including Nigeria, suffer from structural unemployment, which exists both in open and disguised forms. The problem in developing countries can better be summarized as underemployment - a partial lack of work, low employment income, and underutilization of skills or low productivity rather than unemployment as discussed above. Thus, underemployment describes the condition of those who work part-time because full-time jobs are unavailable or are employed on a full-time basis but the services they render may actually be much less than full time (disguised underemployment) or who are employed in occupations requiring lower levels of skills than they are qualified for (hidden underemployment). A related concept is that of the working poor - those who actually work long hours but earn only a low income below the poverty line. In other words, working poor is defined as a situation when individuals or households, in spite of being employed, remain in relative poverty due to low levels of wages and earnings.

Causes of unemployment in Nigeria

1. Rapid population growth. The Nigerian population is one of the fastest-growing populations in the world. The growth rate of the Nigerian population is due to a high fertility rate, a declining mortality rate, and increasing migration of foreigners from neighboring countries for job purposes. The population growth rate is far in excess of the labour-absorptive capacity of the economy.
2. Dependence on inappropriate foreign technology. The demand for labour is low in the country’s manufacturing sector given the reliance of these industries on foreign technologies designed for labour-scarce industrialised economies.
3. Rural-urban income differential: the wide gaps between rural and urban incomes account for mass rural-urban migration in excess of job opportunities in the urban areas leading to a high urban unemployment. In spite of high and rising levels of urban unemployment, masses of people continue to migrate from rural areas into crowded and congested cities such as Lagos, Ibadan, Kano, Kaduna, and Enugu.
4. Low Foreign Direct Investment (FDI): Any public policy designed to encourage the inflow of foreign capital is capable of generating employment opportunities within the domestic economy. Policies like the Nigerian Enterprises Promotion (NEP) decree of 1972 restricted foreign investment, impacting job creation.
5. Defective educational system. The Nigerian educational system is white-collar oriented. And there is the proliferation of tertiary institutions-universities, polytechnics, and colleges of education that are turning out thousands of graduates whose skills are, in most cases, not applicable to the manpower requirements of the economy.
6. Immobility of the typical Nigerian worker. The phenomenon of geographical immobility of labour is partly responsible for the incidence of involuntary or frictional unemployment in Nigeria. Some Nigerians remain unemployed because of the prejudice they hold against working in certain parts of the country.

Effects of unemployment.

1. Effect on National Output and General Standard of Living: Unemployment has a direct impact on national output (GDP) as it reduces the overall productivity of the economy. When people are unemployed, they contribute less to the production of goods and services, leading to a decrease in output. This can result in lower economic growth rates and hinder the country's ability to reach its full potential. Furthermore, unemployment affects the general standard of living. Individuals and families who are unemployed face financial difficulties, struggle to meet basic needs, and may experience a decline in their quality of life. This can lead to increased poverty rates, inequality, and social tensions within society.
2. Effect on Government: Unemployment places a burden on government resources and finances. When people are unemployed, they often rely on social welfare programs such as

unemployment benefits, welfare assistance, and healthcare subsidies. These programs require government funding, which can strain public budgets and lead to deficits or increased public debt. Additionally, high unemployment rates can reduce tax revenues for the government, as fewer people are earning income and paying taxes. This limits the government's ability to invest in public services, infrastructure, education, and healthcare, further impacting economic development and societal well-being.

3. Social Implications: Unemployment has significant social implications, affecting both individuals and communities. Unemployed individuals may experience psychological stress, loss of self-esteem, and feelings of social isolation. This can lead to mental health issues, substance abuse, and family problems. At the community level, high unemployment rates can contribute to social unrest, crime, and urban decay. It can also create divides between different socio-economic groups, leading to social inequalities and tensions within society.
4. Implications for Political Office Holders: Political office holders face challenges related to unemployment, as it is a key issue that impacts public opinion and political support. High unemployment rates can lead to dissatisfaction among voters and criticism of government policies and actions. Political leaders are often under pressure to address unemployment through job creation initiatives, economic reforms, and social welfare programs. Failure to effectively tackle unemployment can result in electoral consequences, loss of public trust, and political instability.

Measures to Remove Unemployment

1. Population Control: Population control measures aim to manage population growth rates, which can have an impact on unemployment. High population growth can strain job markets and lead to higher levels of unemployment. Governments may implement policies such as family planning programs, education on birth control methods, and incentives for smaller families to control population growth.
2. Emphasis on Labour-Intensive Techniques: Emphasizing labor-intensive techniques in industries can create more job opportunities. This approach focuses on using human labor rather than automated or capital-intensive methods. Government policies and incentives can encourage businesses to adopt labor-intensive practices, especially in sectors with high unemployment rates.
3. Discouraging Urbanization: Discouraging rapid urbanization can help distribute job opportunities more evenly across rural and urban areas. Policies that promote investment in rural infrastructure, agricultural development, and rural industries can attract people to stay or return to rural areas, reducing the strain on urban job markets.
4. Encourage Foreign Direct Investment (FDI): Encouraging FDI brings in new capital, technology, and expertise, which can stimulate economic growth and create job opportunities. Governments can create a favorable investment climate by offering tax incentives, streamlined regulations, infrastructure development, and political stability to attract foreign investors.
5. Promote Full Utilization of Production Capacity: Promoting full utilization of production capacity in industries ensures efficient use of resources and maximizes output. This can be achieved through investment in modern technology, training programs for workers to enhance skills, and market expansion strategies to increase demand for goods and services.
6. Fiscal Policy: Expansionary fiscal policies, such as increased public spending on infrastructure projects, healthcare, education, and job training programs, can boost economic activity and create jobs.
7. Restructuring the Educational System: Restructuring the educational system is vital to aligning skills with market demand. This includes updating curricula to match industry needs, providing

vocational training and apprenticeships, promoting entrepreneurship and innovation, and enhancing access to higher education for a skilled workforce.

The meaning of full employment

Full employment is said to occur in a country where about 95 percent of the entire labour force is fully employed while the remaining 5 or 4 percent is frictionally unemployed. The full employment also called the (**full employment real output**) is the amount of output that is produced in an economy when that economy is using all of its resources efficiently; the full employment output would be a combination of output that is on that country's PPC. The natural rate of unemployment is determined by comparing, at any given time, the number of available jobs with unemployed workers in the economy. The unemployment rate that exists when an economy is producing the full employment output; when an economy is in a recession, the current unemployment rate is higher than the natural rate. During expansions, the current unemployment rate is less than the natural rate.

The labor force participation rate (LFPR)

The labor force participation rate (LFPR) is another measure of labor market activity in the economy. The LFPR is the percentage of the adult population that is in the labor force. The labor force includes everyone who is either employed or unemployed.

The adult population is defined as anyone who is over the age of 15 who potentially could be part of the labor force. Anyone who is less than 15 years old, is in the military, or is institutionalized is not considered to be potentially part of the labor force and is excluded from this calculation.

When people enter the labor force the LFPR increases, and when people exit the labor force the LFPR decreases. A decrease in the LFPR that occurs at the same time as a decrease in the unemployment rate can signal that there are more discouraged workers.

$$\textbf{LFPR} = \frac{LF}{Total\ Population\,(LF + NLF)}$$

LF = the number in the labour force

NLF= the number not in the labour force

LFPR is the ratio of economically active population (employed or unemployed) to the total population. David W. Pearse (1986) shows that LFPR is interpreted as the probability that a person will be in the labour force.

Inflation and Unemployment Relationship

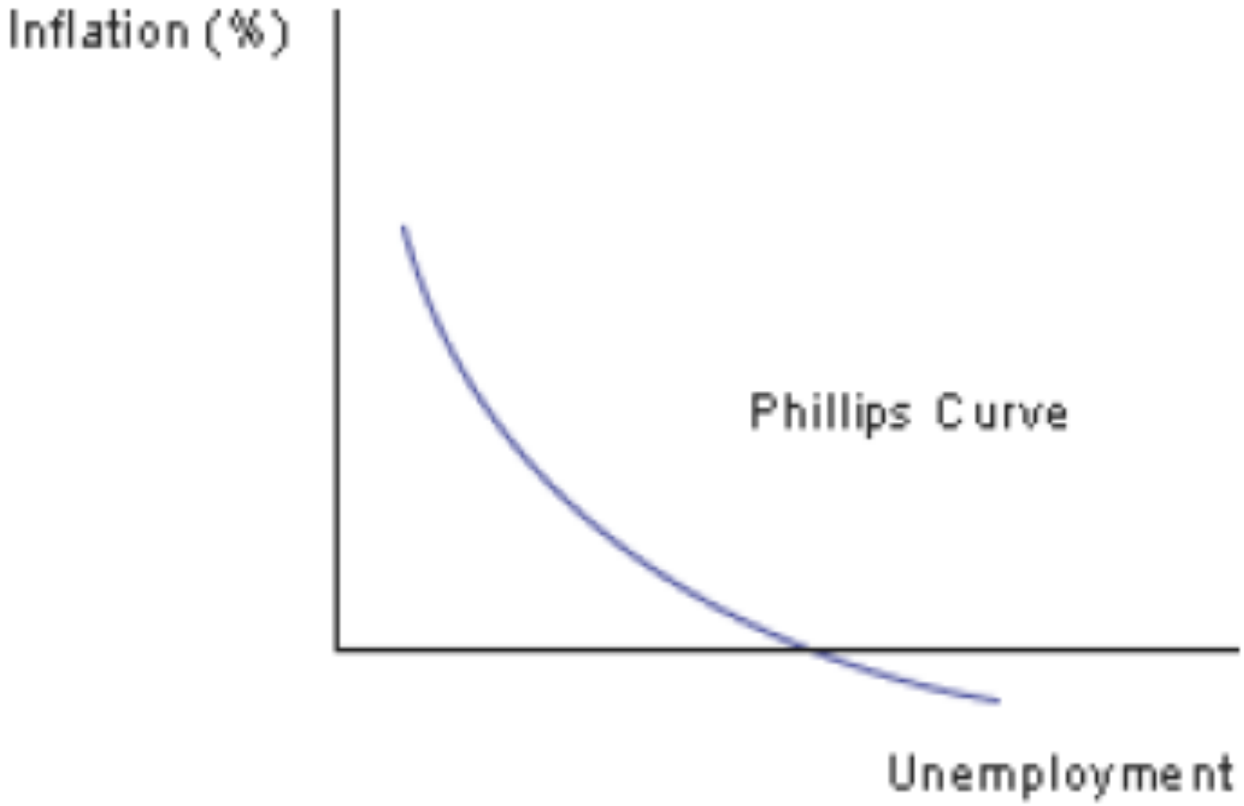
In economic literature, various schools of thought have proposed different explanations for labor market outcomes, particularly regarding the problem of unemployment. The classical, neoclassical, and institutional schools of labor economics each offer distinct perspectives based on the interplay of market forces, institutional factors, and sociological aspects.

The neoclassical school, for instance, places primary emphasis on market forces like demand and supply in determining wages and labor allocation. It considers institutional and social factors as given or secondary in influencing labor market outcomes.

On the other hand, the institutional school highlights the significance of institutional forces such as internal labor markets and unions, alongside sociological factors like class, discrimination, segmentation, and stratification. This school underscores the unique features of the labor market and how these forces mitigate the influence of market mechanisms.

Regarding unemployment, different theoretical explanations have been proposed by these schools. Keynesian economics, a significant departure from classical and neoclassical theories, attributes unemployment to a lack of effective demand for goods and services. Keynes argued for government

intervention through monetary and fiscal policies to stimulate demand, thereby reducing unemployment and deflation.
Classical and neoclassical theories, however, focus on labor market rigidities like minimum wage laws and regulations as causes of unemployment. These perspectives may not fully capture the complexity of unemployment due to its diverse nature, patterns, causes, and impacts.
In exploring the relationship between unemployment and inflation, A.W. Phillips introduced the Phillips curve, illustrating an inverse relationship between unemployment and inflation in the figure below. This curve suggests a trade-off where reducing unemployment could lead to increased inflation, highlighting the challenges governments face in addressing both issues simultaneously.



Assignment
Discuss the term stagflation

The 2030 Agenda for Sustainable Development's 17 Sustainable Development Goals (SDGs)

Goal: This document enables 4th SDG Youth Summer Camp participants to i) get to know the 17 SDGs, ii) explore what areas each goal covers under its targets, iii) identify targets of most interest to participants, and iv) identify synergies between the SDGs and chosen target(s).

Goal 1. End poverty in all its forms everywhere

Target 1.1 By 2030, **eradicate extreme poverty** for all people everywhere, currently measured as people living on less than $1.25 a day

Target 1.2 By 2030, **reduce at least by half the proportion** of men, women and children **of all ages living in poverty** in all its dimensions according to national definitions

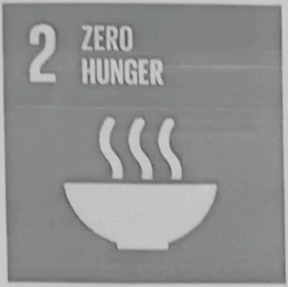
Target 1.3 **Implement nationally appropriate social protection systems and measures for all**, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable

Target 1.4 By 2030, **ensure that all** men and women, in particular the poor and the vulnerable, **have equal rights to economic resources**, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

Target 1.5 By 2030, **build the resilience of the poor and** those in vulnerable situations and **reduce** their exposure and **vulnerability to climate-related extreme events** and other economic, social and environmental shocks and disasters

Target 1.a **Ensure significant mobilization of resources from a variety of sources**, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, **to implement programmes and policies to end poverty** in all its dimensions

Target 1.b **Create sound policy frameworks** at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, **to support** accelerated **investment in poverty eradication actions**



Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Target 2.1 By 2030, **end hunger and ensure access by all people**, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

Target 2.2 By 2030, **end all forms of malnutrition**, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons

Target 2.3 By 2030, **double the agricultural productivity and incomes of small-scale food producers,** in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment

Target 2.4 By 2030, **ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production**, that help maintain ecosystems, **that strengthen capacity for adaptation to climate change**, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality

Target 2.5 By 2020, **maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species**, including through soundly A/RES/70/1 Transforming our world: the 2030 Agenda for Sustainable Development 16/35 managed and diversified seed and plant banks at the national, regional and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed

Target 2.a **Increase investment**, including through enhanced international cooperation, **in rural infrastructure**, agricultural research and extension services, technology development and plant and livestock gene banks in order **to enhance agricultural productive capacity in developing countries,** in particular least developed countries

Target 2.b **Correct and prevent trade restrictions and distortions in world agricultural markets**, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round

Target 2.c **Adopt measures to ensure the proper functioning of food commodity markets** and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility

3 GOOD HEALTH AND WELL-BEING

Goal 3. Ensure healthy lives and promote well-being for all at all ages

Target 3.1 By 2030, **reduce the global maternal mortality ratio to less than 70 per 100,000 live births**

Target 3.2 By 2030, **end preventable deaths of newborns and children under 5 years of age**, with all countries aiming to reduce neonatal mortality to at least as low as 12 per 1,000 live births and under-5 mortality to at least as low as 25 per 1,000 live births

Target 3.3 By 2030, **end the epidemics** of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases

Target 3.4 By 2030, **reduce by one third premature mortality from non-communicable diseases** through prevention and treatment and promote mental health and wellbeing

Target 3.5 **Strengthen the prevention and treatment of substance abuse,** including narcotic drug abuse and harmful use of alcohol

Target 3.6 By 2020, **halve the number of global deaths and injuries from road traffic accidents**

Target 3.7 By 2030, **ensure universal access to sexual and reproductive health-care services**, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes

Target 3.8 **Achieve universal health coverage**, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all

Target 3.9 By 2030, **substantially reduce the number of deaths and illnesses from hazardous chemicals** and air, water and soil pollution **and contamination**

Target 3.a **Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control in all countries**, as appropriate

Target 3.b **Support the research and development of vaccines and medicines for the communicable and non-communicable diseases** that primarily affect developing Transforming our world: the 2030 Agenda for Sustainable Development A/RES/70/1 17/35 countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all

Target 3.c **Substantially increase health financing** and the recruitment, development, training and retention of **the health workforce in developing countries**, especially in least developed countries and small island developing States

Target 3.d **Strengthen the capacity of all countries**, in particular developing countries, for early warning, risk reduction and management of **national and global health risks**

4 QUALITY EDUCATION

Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Target 4.1 By 2030, **ensure that all girls and boys complete free, equitable and quality primary and secondary education** leading to relevant and effective learning outcomes

Target 4.2 By 2030, **ensure that all girls and boys have access to quality early childhood development, care and pre-primary education** so that they are ready for primary education

Target 4.3 By 2030, **ensure equal access for all women and men to affordable and quality** technical, vocational and tertiary **education**, including university

Target 4.4 By 2030, **substantially increase the number of** youth **and adults** who have **relevant skills**, including technical and vocational skills, **for employment,** decent jobs and entrepreneurship

Target 4.5 By 2030, **eliminate gender disparities in education and ensure equal access to all levels of education and vocational training** for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations

Target 4.6 By 2030, **ensure that all youth and** a substantial proportion of **adults**, both men and women, **achieve literacy and numeracy**

Target 4.7 By 2030, **ensure that** all learners **acquire the knowledge and skills needed** to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development

Target 4.a **Build and upgrade education facilities that are** child, **disability and gender sensitive and provide** safe, non-violent, inclusive and effective **learning environments for all**

Target 4.b By 2020, **substantially expand globally the number of scholarships available to developing countries**, in particular least developed countries, small island developing States and African countries, **for enrolment in higher education**, including vocational training and information and communications technology, technical, engineering and scientific programmes, in developed countries and other developing countries

Target 4.c By 2030, **substantially increase the supply of qualified teachers,** including through international cooperation for teacher training in developing countries, especially least developed countries and small island developing States A/RES/70/1 Transforming our world: the 2030 Agenda for Sustainable Development 18/35

5 GENDER EQUALITY

Goal 5. Achieve gender equality and empower all women and girls

Target 5.1 **End all forms of discrimination against all women and girls** everywhere

Target 5.2 **Eliminate all forms of violence against all women and girls** in the public and private spheres, including trafficking and sexual and other types of exploitation

Target 5.3 **Eliminate all harmful practices**, such as child, early and forced marriage and female genital mutilation

Target 5.4 **Recognize and value unpaid care and domestic work** through the provision of public services, infrastructure and social protection policies **and the promotion of shared responsibility within the household** and the family as nationally appropriate

Target 5.5 **Ensure women's full and effective participation and equal opportunities for leadership at all levels** of decision-making in political, economic and public life

Target 5.6 **Ensure universal access to sexual and reproductive health and reproductive rights** as agreed in accordance with the Programme of Action of the International Conference on Population and Development and the Beijing Platform for Action and the outcome documents of their review conferences

Target 5.a **Undertake reforms to give women equal rights to economic resources**, as well as access to **ownership and control over land** and other forms of property, financial services, inheritance and natural resources, **in accordance with national laws**

Target 5.b **Enhance the use of enabling technology**, in particular information and communications technology, **to promote the empowerment of women**

Target 5.c **Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment** of all women and girls at all levels

Goal 6. Ensure availability and sustainable management of water and sanitation for all

Target 6.1 By 2030, **achieve universal** and equitable **access to** safe and affordable **drinking water for all**

Target 6.2 By 2030, **achieve access to** adequate and equitable **sanitation and hygiene** for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations

Target 6.3 By 2030, **improve water quality** by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals **and materials, halving the proportion of untreated wastewater** and substantially increasing recycling and safe reuse globally

Target 6.4 By 2030, substantially increase **water-use** efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address **water scarcity** and substantially reduce the number of people suffering from water scarcity

Target 6.5 By 2030, **implement integrated water resources management** at all levels, including through transboundary cooperation as appropriate

Target 6.6 By 2020, **protect and restore water-related ecosystems**, including mountains, forests, wetlands, rivers, aquifers and lakes Transforming our world: the 2030 Agenda for Sustainable Development A/RES/70/1 19/35

Target 6.a By 2030, **expand international cooperation and capacity-building** support to developing countries **in water- and sanitation-related activities and programmes,** including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies

Target 6.b **Support and strengthen the participation of local communities in improving water and sanitation management**

7 AFFORDABLE AND CLEAN ENERGY

Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all

Target 7.1 By 2030, **ensure universal access to affordable,** reliable and **modern energy services**

Target 7.2 By 2030, **increase substantially the share of renewable energy in the global energy mix**

Target 7.3 By 2030, **double the global rate of improvement in energy efficiency**

Target 7.a By 2030, **enhance international cooperation to facilitate access to clean energy research and technology,** including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, **and promote investment in energy infrastructure and clean energy technology**

Target 7.b By 2030, **expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries**, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support

8 DECENT WORK AND ECONOMIC GROWTH

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Target 8.1 **Sustain per capita economic growth in accordance with national circumstances** and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries

Target 8.2 **Achieve higher levels of economic productivity through diversification, technological upgrading and innovation**, including through a focus on high-value added and labour-intensive sectors

Target 8.3 **Promote development-oriented policies that support productive activities, decent job creation,** entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

Target 8.4 **Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation**, in accordance with the 10-Year Framework of Programmes on Sustainable Consumption and Production, with developed countries taking the lead

Target 8.5 By 2030, **achieve full and productive employment and decent work for all** women and men, including for young people and persons with disabilities, and equal pay for work of equal value

Target 8.6 By 2020, **substantially reduce the proportion of youth not in employment,** education or training A/RES/70/1 Transforming our world: the 2030 Agenda for Sustainable Development 20/35

Target 8.7 **Take immediate and effective measures to eradicate forced labour,** end modern slavery and human trafficking and secure the prohibition **and elimination of the worst forms of child labour**, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms

Target 8.8 **Protect labour rights and promote safe and secure working environments for all** workers, including migrant workers, in particular women migrants, and those in precarious employment

Target 8.9 By 2030, **devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products**

Target 8.10 **Strengthen the capacity of domestic financial institutions to encourage and expand access to** banking, insurance and **financial services for all**

Target 8.a **Increase Aid for Trade support for developing countries, in particular least developed countries**, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to Least Developed Countries

Target 8.b By 2020, **develop and operationalize a global strategy for youth employment** and implement the Global Jobs Pact of the International Labour Organization

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Target 9.1 **Develop quality, reliable, sustainable and resilient infrastructure**, including regional and transborder infrastructure, to support economic development and human well-being, **with a focus on affordable and equitable access for all**

Target 9.2 **Promote inclusive and sustainable industrialization** and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries

Target 9.3 **Increase the access of small-scale industrial and other enterprises**, in particular in developing countries, **to financial services,** including affordable credit, and their integration into value chains and markets

Target 9.4 By 2030, **upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies** and industrial processes, **with all countries taking action in accordance with their respective capabilities**

Target 9.5 **Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries**, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending

Target 9.a **Facilitate sustainable and resilient infrastructure development in developing countries** through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States

Target 9.b **Support domestic technology development, research and innovation in developing countries**, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities Transforming our world: the 2030 Agenda for Sustainable Development A/RES/70/1 21/35

Target 9.c **Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet** in least developed countries by 2020

10 REDUCED INEQUALITIES

Goal 10. Reduce inequality within and among countries

Target 10.1 By 2030, **progressively achieve and sustain income growth of the bottom 40 per cent** of the population **at a rate higher than the national average**

Target 10.2 By 2030, **empower and promote the social, economic and political inclusion of all**, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Target 10.3 **Ensure equal opportunity and reduce inequalities of outcome**, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

Target 10.4 **Adopt** policies, especially **fiscal, wage and social protection policies,** and progressively **achieve greater equality**

Target 10.5 **Improve the regulation and monitoring of global financial markets and institutions and strengthen** the implementation of such **regulations**

Target 10.6 **Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions** in order **to deliver** more effective, credible, accountable and **legitimate institutions**

Target 10.7 **Facilitate** orderly, safe, regular and **responsible migration and mobility of people**, including through the implementation of planned and well-managed migration policies

Target 10.a **Implement the principle of special and differential treatment for developing countries,** in particular least developed countries, in accordance with World Trade Organization agreements

Target 10.b **Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest,** in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes

Target 10.c By 2030, **reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors** with costs higher than 5 percent

11 SUSTAINABLE CITIES AND COMMUNITIES

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable

Target 11.1 By 2030, ensure access for all to **adequate, safe and affordable housing and basic services and upgrade slums**

Target 11.2 By 2030, provide access to **safe, affordable, accessible and sustainable transport systems** for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, **women,** children, **persons with disabilities and older persons**

Target 11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, **integrated and sustainable human settlement planning and management in all countries**

Target 11.4 Strengthen efforts to **protect and safeguard the world's cultural and natural heritage**

Target 11.5 By 2030, significantly **reduce the number of deaths** and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by **disasters, including water-related disasters**, with a focus on protecting the poor and people in vulnerable situations

Target 11.6 By 2030, reduce the **adverse per capita environmental impact of cities**, including by paying special attention to **air quality and municipal and other waste management**

Target 11.7 By 2030, provide **universal access to safe, inclusive and accessible, green and public spaces,** in particular for women and children, older persons and persons with disabilities

Target 11.a Support positive **economic, social and environmental links between urban, peri-urban and rural areas** by strengthening **national and regional development planning**

Target 11.b By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards **inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters**, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015–2030, **holistic disaster risk management at all levels**

Target 11.c Support **least developed countries**, including through **financial and technical assistance, in building sustainable and resilient buildings** utilizing local materials

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Goal 12. Ensure sustainable consumption and production patterns

Target 12.1 **Implement the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns, all countries taking action**, with developed countries taking the lead, taking into account the development and capabilities of developing countries

Target 12.2 By 2030, **achieve the sustainable management and efficient use of natural resources**

Target 12.3 By 2030, **halve per capita global food waste** at the retail and consumer levels **and reduce food losses** along production and supply chains, including post-harvest losses

Target 12.4 By 2020, **achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and** significantly **reduce their release** to air, water and soil in order **to minimize** their **adverse impacts on** human health and **the environment**

Target 12.5 By 2030, **substantially reduce waste generation** through prevention, reduction, recycling and reuse

Target 12.6 **Encourage companies**, especially large and transnational companies, **to adopt sustainable practices and to integrate sustainability information into their reporting cycle**

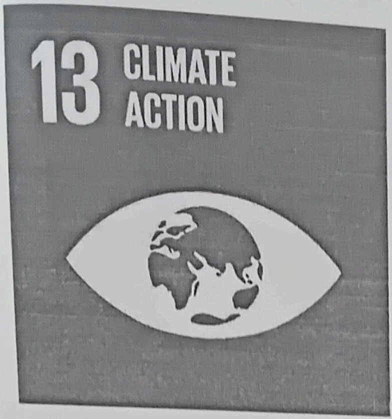
Target 12.7 **Promote public procurement practices that are sustainable**, in accordance with national policies and priorities

Target 12.8 By 2030, **ensure that people everywhere have the relevant information and awareness** for sustainable development **and lifestyles in harmony with nature**

Target 12.a **Support developing countries to strengthen their scientific and technological capacity** to move **towards more sustainable patterns of consumption and production**

Target 12.b **Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products**

Target 12.c **Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions**, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, **to reflect their environmental impacts**, taking fully into account the specific needs and conditions of developing countries **and minimizing the possible adverse impacts on their development** in a manner that protects the poor and the affected communities



Goal 13. Take urgent action to combat climate change and its impacts

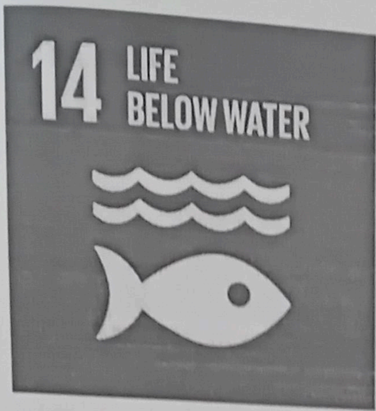
Target 13.1 **Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters** in all countries

Target 13.2 **Integrate climate change measures into national policies,** strategies and planning

Target 13.3 **Improve education, awareness-raising and human and institutional capacity on climate change** mitigation, adaptation, impact reduction and early warning

Target 13.a **Implement the commitment undertaken by developed-country parties** to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly $100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible

Target 13.b **Promote mechanisms for raising capacity for effective climate change-related planning and management** in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities



Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Target 14.1 By 2025, **prevent and significantly reduce marine pollution of all kinds**, in particular from land-based activities, including marine debris and nutrient pollution

Target 14.2 By 2020, **sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts,** including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans

Target 14.3 **Minimize and address the impacts of ocean acidification**, including through enhanced scientific cooperation at all levels

Target 14.4 By 2020, **effectively regulate harvesting and end overfishing**, illegal, unreported and unregulated fishing and destructive fishing practices **and implement science-based management plans**, in order **to restore fish stocks in the shortest time feasible**, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics

Target 14.5 By 2020, **conserve at least 10 per cent of coastal and marine areas**, consistent with national and international law and based on the best available scientific information

Target 14.6 By 2020, **prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing,** eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation

Target 14.7 By 2030, **increase the economic benefits to small island developing States and least developed countries** from the sustainable use of marine resources, including **through** sustainable management of **fisheries, aquaculture and tourism**

Target 14.a **Increase scientific knowledge, develop research capacity and transfer marine technology,** taking into account the Intergovernmental Oceanographic Commission Criteria and Guidelines on the Transfer of Marine Technology, in order to improve ocean health and to enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries

Target 14.b **Provide access for small-scale artisanal fishers to marine resources and markets**

Target 14.c **Enhance the conservation and sustainable use of oceans** and their resources **by implementing international law** as reflected in the United Nations Convention on the Law of the Sea, which provides the legal framework for the conservation and sustainable use of oceans and their resources, as recalled in paragraph 158 of "The future we want"

15 LIFE ON LAND

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Target 15.1 By 2020, **ensure the conservation, restoration** and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

Target 15.2 By 2020, **promote the implementation of sustainable management of all types of forests**, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

Target 15.3 By 2030, **combat desertification, restore degraded land and soil, including land affected by desertification**, drought and floods, and strive to achieve a land degradation-neutral world

Target 15.4 By 2030, **ensure the conservation of mountain ecosystems**, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development

Target 15.5 **Take urgent and significant action to reduce the degradation of natural habitats**, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species

Target 15.6 **Promote fair and equitable sharing of the benefits** arising from the utilization of genetic resources and promote appropriate access to such resources, as internationally agreed

Target 15.7 **Take urgent action to end poaching and trafficking of protected species of flora and fauna** and address both demand and supply of illegal wildlife products

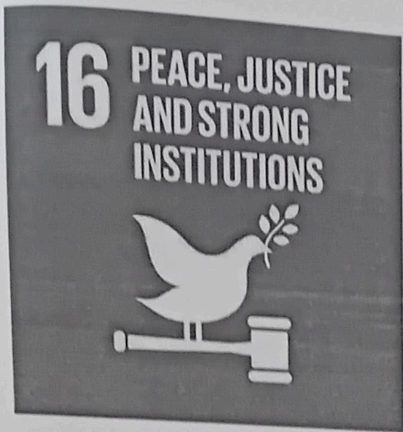
Target 15.8 By 2020, **introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species** on land and water ecosystems and control or eradicate the priority species

Target 15.9 By 2020, **integrate ecosystem and biodiversity values into national and local planning**, development processes, poverty reduction strategies and accounts

Target 15.a **Mobilize and significantly increase financial resources** from all sources **to conserve** and sustainably use **biodiversity and ecosystems**

Target 15.b **Mobilize significant resources** from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries **to advance such management, including for conservation and reforestation**

Target 15.c **Enhance global support for efforts to combat poaching and trafficking of protected species**, including by increasing the capacity of local communities to pursue sustainable livelihood opportunities



Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Target 16.1 Significantly **reduce all forms of violence** and related death rates **everywhere**

Target 16.2 **End** abuse, exploitation, trafficking and **all forms of violence against and torture of children**

Target 16.3 **Promote the rule of law at the national and** international levels **and ensure equal access to justice for all**

Target 16.4 By 2030, **significantly reduce illicit financial and arms flows**, strengthen the recovery and return of stolen assets **and combat** all forms of **organized crime**

Target 16.5 **Substantially reduce corruption and bribery** in all their forms

Target 16.6 **Develop** effective, **accountable** and transparent **institutions at all levels**

Target 16.7 **Ensure** responsive, inclusive, participatory and **representative decision making** at all levels

Target 16.8 Broaden and **strengthen the participation** of developing countries **in the institutions of global governance**

Target 16.9 By 2030, **provide legal identity for all**, including birth registration

Target 16.10 **Ensure public access to information and protect fundamental freedoms**, in accordance with national legislation and international agreements

Target 16.a **Strengthen relevant national institutions**, including through international cooperation, for building capacity at all levels, in particular in developing countries, to prevent violence and combat terrorism and crime

Target 16.b **Promote and enforce non-discriminatory laws and policies** for sustainable development

17 PARTNERSHIPS FOR THE GOALS

Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Finance

Target 17.1 **Strengthen domestic resource mobilization**, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection

Target 17.2 **Developed countries to implement fully their official development assistance commitments**, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries

Target 17.3 **Mobilize additional financial resources** for developing countries from multiple sources

Target 17.4 **Assist developing countries in attaining long-term debt sustainability through coordinated policies** aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress

Target 17.5 **Adopt and implement investment promotion regimes for** least developed countries **Technology**

Target 17.6 **Enhance** North-South, South-South and triangular regional and **international cooperation on and access to** science, **technology** and innovation **and enhance knowledge sharing on mutually agreed terms**, including through improved coordination among existing mechanisms, in particular at the United Nations level, and through a global technology facilitation mechanism

Target 17.7 **Promote the development, transfer, dissemination and diffusion of environmentally sound technologies** to developing countries on favourable terms, including on concessional and preferential terms, as mutually agreed

Target 17.8 **Fully operationalize the** technology bank and science, technology and **innovation capacity-building mechanism for least developed countries** by 2017 and enhance the use of enabling technology, in particular information and communications technology

Capacity-building

Target 17.9 **Enhance international support for implementing** effective and targeted **capacity-building in developing countries to support national plans to implement all the Sustainable Development Goals**, including through North-South, South-South and triangular cooperation

Trade

Target 17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda

Target 17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020

Target 17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

Systemic issues

Policy and institutional coherence

Target 17.13 **Enhance global macroeconomic stability**, including through policy coordination and policy coherence

Target 17.14 **Enhance policy coherence** for sustainable development

Target 17.15 **Respect each country's policy space and leadership to establish and implement policies for poverty eradication** and sustainable development Multi-stakeholder partnerships

Target 17.16 **Enhance the Global Partnership** for Sustainable Development, **complemented by multi-stakeholder** partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries

Target 17.17 **Encourage and promote** effective public, public-private and civil society **partnerships**, building on the experience and resourcing strategies of partnerships Data, monitoring and accountability

Target 17.18 By 2020, **enhance capacity-building support to developing countries**, including for least developed countries and small island developing States, **to increase significantly the availability of** high-quality, timely and reliable **data** disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts

Target 17.19 By 2030, **build on existing initiatives to develop measurements of progress on sustainable development** that complement gross domestic product, and support statistical capacity-building in developing countries

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Obafemi Awolowo University, Ile-Ife.
SSC 102 Rain Semester,
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Course Coordinator: Prof. A. A. Adebayo

Topic 6: Comparative Analysis of World Economies

Topic Lecturer: Dr. A.V. Adejumo

1. Introduction

Note that:

1.1 Our focus in this comparative economic analysis is to compare the stages of economic development of countries of the world.

1.2. Generally, the countries of the world may be divided into two, namely, the Global North and the Global South.

1.3 While the Global North implies the developed economies, the Global South implies the underdeveloped economies.

Four broad indicators distinguish global north economies from global south economies. These include politics, technology, wealth and demography.

Study the world map in the next slide.


Global North
Global South
VS
Comparison

Can you name a few countries of the global north and the global south?

Can you describe the "North" and the "South" by the four parameters above?

Can you identify the continents where the global north and the global south countries are located on the world map?

1.3 (b) The World Systems Theory gives another interesting division of the world economies into three.

These are:

a) **Core countries**
b) **Semi-periphery countries**
c) **Peripheral countries**

This division draws largely on the Marxist tradition of analysis of development.

- Immanuel Wallerstein developed World Systems Theory and its three-level hierarchy: core, periphery, and semi-periphery.
- Core countries are dominant capitalist countries that exploit peripheral countries for labor and raw materials.
- Peripheral countries are dependent on core countries for capital and have underdeveloped industry.
- Semi-peripheral countries share characteristics of both core and peripheral countries.

The theory perceives the world as a spectrum from core to periphery countries where high development levels, manufacturing systems, a capacity for innovation, and convergence of trade flows characterize core countries.

The emergence of **core countries** is the outcome of a historical process of economic development that began in England and northern Europe during the industrial revolution in the 19th century.

With industrialization and economic development, North America, Japan, and Australia became core areas of the world economy by the early 20th century.

On the opposite, the periphery is composed of countries that have experienced more limited economic development, producers of raw materials to feed the industrial mills in the core. Hence a growing differences between the core and the periphery.

Nevertheless, a group of countries (the semi-periphery), managed to come up higher on the ladder of development to share limited characteristics of the core countries.

Hence, the semi-periphery are called transition economies.

The core has a level of dominance over the periphery, which is reflected in trade and the structure of transportation networks.

Historically, this dominance was political through the incorporation of the periphery into colonial empires.

However, from the second half of the 20th century, economic factors became the key drivers of disparity between the core and the periphery.

WORLD SYSTEMS THEORY

A theory that the world exists as a single socio-economic system made up of a core, periphery, and semi-periphery regions.

DEFINITION

"World-systems theory is a socioeconomic and political approach that explains the economic development and dynamics of capitalistic world economy analyzing the mechanisms of international market trade, economic division of labor between core and periphery regions, and interests of capitalist class in markets." (Coccia, 2019)

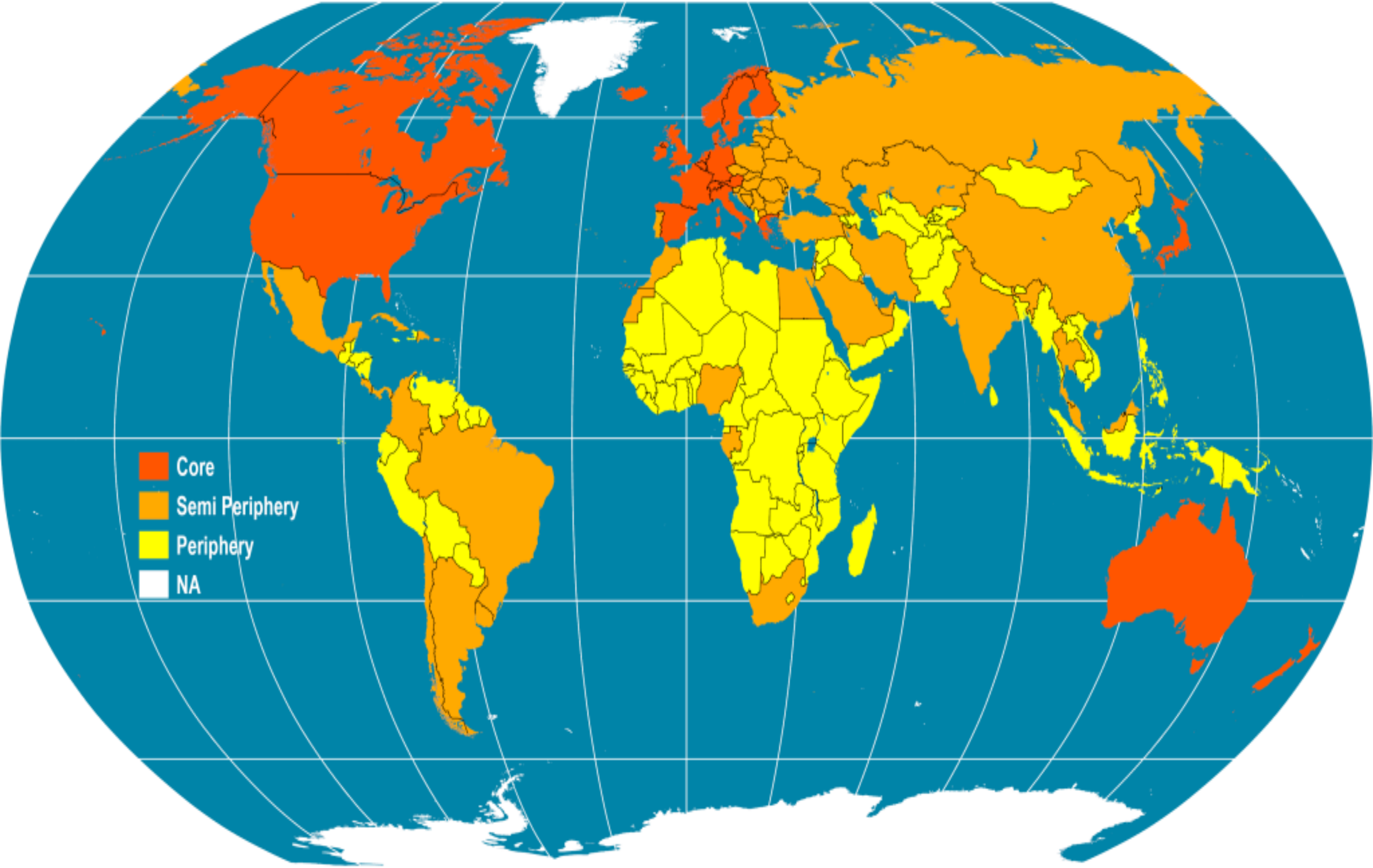
REGIONS

1. **Core Areas** – Technologically advanced and industrialized capitalist nations/regions.

2. **Periphery Areas** – Poor countries that primarily subsist by exporting primary products.

3. **Semi-Periphery Areas** – Countries that act as the periphery to core countries, and core to the countries on the periphery.

Core, semi-periphery and periphery countries



Country characteristics: World systems theory

- **Core countries**
  - More developed and wealthier
  - Early to industrialize
  - Tertiary-based economy
  - Low or no population growth
- **Semi-Periphery countries**
  - Mid-level development
  - Later to industrialize (or industrializing)
  - Primary, Secondary and increasing Tertiary Economy
  - Rapidly slowing population growth
- **Periphery countries**
  - Lower-level of development and standard of living
  - Trying to industrialize
  - Primary economy with some secondary sector development
  - Slowing population growth

1.4 Reason behind the study of comparative economic development

- Despite substantial economic development in developing countries in recent years there is still a large gap between developing and developed countries in respect of development parameters.

- **Output per worker** in the United States is about 10 times higher than India and more than 50 times higher than the Democratic Republic of Congo (DRC) in 2011.

- **Per capita income** was $48,820 in the United States, $3,640 in India, and $340 in the DRC.

- There are also enormous gaps in measures of welfare.
- **Life expectancy** is 79 in the United States, 70 in India and just 60 in the DRC.
- The **percent of children who are underweight** is less than 3% in the United States but 43% in India and 24% in the DRC.
- Whereas almost all **women are literate** in the United States, just 51% are in India and 57% in the DRC.

- How did such wide disparities between developing and developed countries come about?
- In the age of globalization in which movement of people, information, and goods and services so rapid and comparatively inexpensive, how have such large gaps managed to persist and even widen?
- Why have some developing countries made so much progress in closing these gaps while others have made so little?

1.5 Ten important common features of developing countries

These areas are the following:

- 1. Lower levels of living and productivity
- 2. Lower levels of human capital
- 3. Higher levels of inequality and absolute poverty
- 4. Higher population growth rates
- 5. Greater social fractionalization
- 6. Larger rural populations but rapid rural-to-urban migration.

Common features…cont'd.

- 7. Lower levels of industrialization,
- 8. Adverse geography,
- 9. Underdeveloped financial and other markets,
- 10. Lingering colonial impacts such as poor institutions and often external dependence.

2.1 Defining the Developing World

- The most common way to define the developing world is by per capita income.
- International agencies like Organization for Economic Cooperation and Development (OECD) and the United Nations, offer classifications of countries by their economic status,
- but the best-known system is that of the International Bank for Reconstruction and Development (IBRD), more commonly known as the **World Bank.**

- **World Bank :** is an organization known as an "international financial institution" that provides development funds to developing countries in the form of interest-bearing loans, grants, and technical assistance.

- In the World Bank's classification system, 213 economies with a population of at least 30,000 are ranked by their levels of gross national income (GNI) per capita.

Classification of Economies by World Bank

In the World Bank's classification system, 213 economies with a population of at least 30,000 are ranked by their levels of gross national income (GNI) per capita.
These economies are then classified as:

low-income countries ,
lower-middle-income countries ,
upper middle-income countries ,
high-income OECD countries, and **other high-income countries**.
Often, LMCs and UMCs are informally grouped as
The **middle-income countries.**

With a number of important exceptions, the developing countries are those with low-, lower-middle, or upper-middle incomes

A. Income Classification of Economies by World Bank

- **Low-income countries** (**LICs**)- defined as having per capita gross national income in 2011 of **$1,025 or less**,
- **Lower-middle-income countries** (**LMCs**)- per capita GNI between **$ 1,026 and $ 4,035**;
- **Upper middle-income countries** (**UMCs**)- per capita GNI between **$ 4,036 and $ 12,475**;
- **High-income OECD countries** and other high-income countries - per capita GNI is **$ 12,476 or more.**
- (Often, LMCs and UMCs are informally grouped as the **middle-income countries.**)

Some other categorisation of developing countries

- a number of the countries grouped as “**other high-income economies**”.
- Moreover, high-income countries that have one or two highly developed export sectors but in which significant parts of the population remain relatively uneducated or in poor
- health, or social development is viewed as low for the country’s income level, may be viewed as still developing.
- Examples may include oil exporters such as Saudi Arabia and the United Arab Emirates.

B. Debt Classification of Economies by World Bank

- Yet another way to classify the nations of the developing world is through their degree of international indebtedness, the World Bank has classified countries as :
- severely indebted,
- moderately indebted,
- and less indebted.

The debt-to-GDP ratio is the metric comparing a country's public debt to its gross domestic product (GDP).

B. Debt Classification of Economies by the World Bank

- As of Dec 2020, the top 12 Countries with the Highest Debt-to-GDP Ratios (%) are:
- Venezuela — 350%
- Japan — 266%
- Sudan — 259%
- Greece — 206%
- Lebanon — 172%
- Cabo Verde — 157%
- Italy — 156%
- Libya — 155%
- Portugal — 134%
- Singapore — 131%
- Bahrain — 128%
- United States — 128%

B. Debt Classification of Economies by World Bank

The debt-to-GDP ratio is a metric that helps in understanding a country's ability to pay back its debts.

Generally, a lower debt-to-GDP ratio is ideal, as it signals a country is producing more than it owes, placing it on a strong financial footing.

The current debt-to-GDP ratio in Nigeria is less than 40%. However, there are concerns on accountability of debts incurred by the Nigerian government.

B. HD Classification of Economies by UNDP

- The United Nations Development Programme (UNDP) classifies countries according to their level of human development, including health and education attainments as low, medium, high, and very high.

- Another widely used classification is that of the **least developed countries** For inclusion, a country has to meet each of three criteria: low income, low **human capital**, **and high economic** vulnerability.

Other Classifications include:

- **Newly Industrializing countries (NICs) :** Countries at a relatively advanced level of economic development with a substantial and dynamic industrial sector and with close links to the international trade, finance, and investment system.
- **Least developed countries :** A UN designation of countries with low income, low human capital, and high economic vulnerability.
- **Human capital :** Productive investments in people, such as skills, values, and health resulting from expenditures on education, on-the-job training programs, and medical care.

Other classifications…cont'd.

- **Emerging market:** was introduced at the International Finance Corporation ***to suggest progress*** . This term has certain implications.

- **First**, emerging market is widely used in the financial press to suggest the presence of active stock and bond markets; although financial deepening is important, it is only one aspect of economic development,

- **Second**, referring to nations as markets may lead to an under emphasis on some non-market priorities in development,

- **Third**, usage varies, and there is no established or generally accepted designation of which markets should be labeled as emerging and which as yet to emerge(the latter now sometimes dubbed ***frontier markets*** *in the financial press).*

2.2 Basic Indicators of Development: Real Income, Health, and Education

- In this section, we examine basic indicators of three aspects of development :
- **real income per capita** adjusted for purchasing power;
- **health** as measured by life expectancy, undernourishment, and child mortality;
- **educational attainments** as measured by literacy and schooling.

GNI and GDP

- In accordance with the World Bank's income-based classification of countries , **Gross National Income (GNI) per capita,** the most common measure of the overall level of economic activity, is often used as a base of the relative economic well-being of people in different countries.

- **Gross National Income** is calculated as the total domestic and foreign value added claimed by a country's residents without making deductions for depreciation (or wearing out) of the domestic capital stock.

- In other words **GNI** is the total domestic and foreign output claimed by residents of a country, consisting of GDP plus factor incomes earned by foreign residents, minus income earned in the domestic economy by non residents,

- In Indian context GNI is total value addition by Indians(In India + in abroad).

Gross domestic product (GDP)

The total final output of goods and services-

- produced by the country's economy within the country's territory,
- by residents and nonresidents, regardless of its allocation between domestic and foreign claims.

- In Indian context **GDP** will be measured as total value addition in India (By Indians and foreigners).

- In other words **GNI** is total value addition by Indians(In India and abroad),

  and **GDP** means total value addition in India(by resident and non residents or By Indians and foreigners)

- **Value added :** The portion of a product's final value that is added at each stage of production.
- **Depreciation (of the capital stock) :** The wearing out of equipment, buildings, infrastructure, and other forms of capital, reflected in write-offs to the value of the capital stock.
- **Capital stock** : amount of physical good existing at a particular time that have been produced for use in the production of other goods and services.

Indicators of Health and Education

- Besides average incomes, it is necessary to evaluate a nation's average health and educational attainments, which reflect core capabilities.
- **Life expectancy** is the average number of years newborn children would live if subjected to the mortality risks prevailing for their cohort at the time of their birth.
- **Undernourishment** means consuming too little food to maintain normal levels of activity; it is what is often called the problem of hunger.
- **High fertility** can be both a cause and a consequence of underdevelopment, so the birth rate is reported as another basic indicator.

- **Literacy** is the fraction of adult males and females reported or estimated to have basic abilities to read and write;
- functional literacy is generally lower than the reported numbers.

UNDP Indices

- The UNDP offers the

a) **The Human Development Index**(HDI)- This is a statistic composite index of life expectancy, education (mean years of schooling completed and expected years of schooling upon entering the education system), and per capita income indicators, which is used to rank countries into four tiers of human development.

i) very high human development (0.8-1.0),

ii) high human development (0.7-0.79),

iii) medium human development (0.55-.70), and

iv) low human development (below 0.55)

Indices… cont'd.

b) Inequality-Adjusted Human Development Index (IHDI)—which imposes a penalty on the HDI that increases as inequality across people becomes greater—and

c) The Gender Inequality Index (GII), as well as an important innovation,

d) The Multidimensional Poverty Index (MPI),

Significance of HDI

- The Human Development Index, in its Traditional as well as New forms, has made a major contribution to improving our understanding of what constitutes development,
- Which countries are succeeding (as reflected by rises in their NHDI over time), and
- How different groups and regions within countries are faring.
- By combining social and economic data, the NHDI allows nations to take a broader measure of their development performance, both relatively and absolutely.

Significance of HDI

- The New HDI and its Traditional version when used in conjunction with other economic measures of development greatly increase our understanding of which countries are experiencing development and which are not.
- By modifying a country's overall NHDI to reflect income distribution, gender, regional, and ethnic differentials, we are now able to identify not only whether a country is developing but also whether various significant groups within that country are participating in that development

2.4 Characteristics of the Developing World: Diversity within Commonality

- There are important historical and economic commonalities among developing countries that have led to their economic development.
- At the same time, however, there is a great deal of diversity throughout the developing world, even within these areas of broad commonality.
- Different development problems call for different specific policy responses and general development strategies.
- This section examines the 10 major areas of "diversity within commonality" in the developing world.

10 Characteristics of the Developing World: Explaining Diversity within Commonality

- 1. Lower Levels of Living and Productivity,
- 2. Lower Levels of Human Capital,
- 3. Higher Levels of Inequality and Absolute Poverty,
- 4.Higher Population Growth Rates,
- 5. Greater Social Fractionalization,
- 6. Larger Rural Populations but Rapid Rural-to-Urban Migration,
- 7. Lower Levels of Industrialization and Manufactured Exports
- 8.Adverse Geography,
- 9. Underdeveloped Markets,
- 10. Lingering Colonial Impacts and Unequal International Relations

1.a.Lower Levels of Living and Productivity

- There is a vast gulf in productivity between advanced economies such as the United States and developing nations, including India and the DRC, but also a wide range among these and other developing countries.
- Low level of living standard and productivity is common feature of developing word .
- In very low income countries a vicious circle of poverty or ***poverty trap*** may be found in which low income leads to low investment in education and health ,plant and equipment and infrastructure, which in turn leads to low productivity . Nobel laureate Gunnar Myradal has called it ***circular and cumulative causation.***

1.b.Lower Levels of Living and Productivity

- The low-income countries are themselves a very diverse group with greatly differing development challenges.
- There is also a large gap in productivity among developing nations,.
- Among developing countries the wide disparity in income is largely related to the large gaps in output per worker, for example in 2011 it was 6 in sub sahara,9 in southern Asia,10 in south east Asia,14 in eastern Asia and 21 in northern Africa.
- Further ,income growth rates have varied greatly in different developing regions and countries, with rapid growth in East Asia, slow or even no growth in sub-Saharan Africa, and intermediate levels of growth in other regions.
- Some middle income countries are also relatively stagnant, but others are growing rapidly—China most spectacularly.

2.a. **Lower Levels of Human Capital**

- Human capital—health, education, and skills—is vital to economic growth and human development. We have already observed the great disparities in human capital around the world while discussing the Human Development Index.
- Compared with developed countries, much of the developing world has lagged in its average levels of nutrition, health (as measured by life expectancy or undernourishment), and education (measured by literacy).

2.b. **Lower Levels of Human Capital**

- The well-performing developing countries are much closer to the developed world in health and education standards than they are to the lowest income countries.
- Although health conditions in East Asia are relatively good, sub-Saharan Africa continues to be plagued by problems of malnourishment, malaria, tuberculosis, AIDS, and parasitic infections.
- Despite progress, South Asia continues to have high levels of illiteracy, low schooling attainment, and undernourishment.
- In primary school completion, low income countries are also making great progress; for example, enrollments in India are up from 68% in the early 1990s to a reported 94% by 2008.

3.a.Higher Levels of Inequality and Absolute Poverty

- The enormous gap in per capita incomes between rich and poor nations is a major indicator of the huge global economic disparities. But at the same time it is necessary to look at the gap between rich and poor within individual developing countries.
- Inequality varies greatly among developing countries, it is particularly high in many resource-rich developing countries, notably in the Middle East and sub-Saharan Africa but generally much lower inequality in Asia.
- A large majority of the extreme poor live in the low-income developing countries of sub-Saharan Africa and South Asia. Here extreme poverty is due to low human capital , social and political exclusion and other deprivations
- Several African countries, including Sierra Leone and South Africa, also have among the highest levels of inequality in the world.

3.b.Higher Levels of Inequality and Absolute Poverty

- **Absolute Poverty**-Development economists use this concept to represent a specific minimum level of income needed to satisfy the basic physical needs of food, clothing, and shelter in order to ensure continued survival.
- The incidence of extreme poverty varies widely around the developing world.
- The World Bank estimates that the share of the population living on less than $1.25 per day is 9.1% in East Asia and the Pacific, 8.6% in Latin America and the Caribbean, 1.5% in the Middle East and North Africa, 31.7% in South Asia, and 41.1% in sub-Saharan Africa.

3.c.Higher Levels of Inequality and Absolute Poverty

- The share of the world population living below this level had fallen encouragingly to an estimated 21% by 2010,
- the number living on less than $1.25 per day fell from about 1.9 billion in 1981 to about 1.2 billion by 2008, despite a 59% increase in the developing world's population.
- Extreme poverty represents great human misery, and so redressing it is a top priority of international development.
- Development economists have also increasingly focused on ways in which poverty and inequality can lead to slower growth. That is, not only do poverty and inequality result from distorted growth, but they can also cause it.

4.a. Higher Population Growth Rates

- Global population has skyrocketed since the beginning of the industrial era from just under 1 billion in 1800 to 1.65 billion in 1900 and to over 6 billion by 2000 and it crossed 7 billion by 2012.But in recent decades, most population growth has been centered in the developing world.
- Compared with the developed countries, which often have birth rates near or even below replacement (zero population growth) levels, the low-income developing countries have very high birth rates.
- More than five-sixths of all the people in the world now live in developing countries; and some 97% of net population growth (births minus deaths) in 2012 took place in developing regions.

4.b. **Higher Population Growth Rates**

- But population dynamics varies widely among developing countries.
- From 1990 to 2008, population in the low-income countries grew at 2.2% per year, compared to 1.3% in the middle-income countries.
- Middle-income developing countries show greater variance, with some having achieved lower birth rates closer to those prevailing in rich countries.
- Intermediate but still relatively high birth rates are found in South Asia (24), the Middle East and North Africa (24). East Asia and the Pacific have a moderate birth rate of 14 per 1,000, partly the result of birth control policies in China
- **Crude birth rate-** The number of children born alive each year per 1,000 population.

4.c. **Higher Population Growth Rates**

- A major implication of high birth rates is that the active labor force has to support proportionally almost twice as many children as it does in richer countries.

- **Dependency burden** -The proportion of the total population aged 0 to 15 and 65+, which is considered economically unproductive and therefore not counted in the labor force. Both older people and children are often referred to as an economic **dependency burden** in the sense that they must be supported financially by the country’s labor force .

4.d. **Higher Population Growth Rates**

- By contrast, the proportion of people over the age of 65 is much greater in the developed nations but in rich countries, older citizens are supported by their lifetime savings and by public and private pensions.
- In contrast, in developing countries, public support for children is very limited. So dependency has a further magnified impact in developing countries.
- Therefore, that not only are developing countries characterized by higher rates of population growth, but they must also have to deal with greater dependency burdens than rich nations, though with a wide difference between low- and middle-income developing countries.

5.a.Greater Social Fractionalization

- **Fractionalization** -Significant ethnic, linguistic, and other social divisions within a country.
- Low-income countries often have ethnic, linguistic, and other forms of social divisions, sometimes known as fractionalization.
- This is sometimes associated with civil strife and even violent conflict, which can lead developing societies to divert considerable energies to working for political accommodations if not national consolidation.
- There is some evidence that many of the factors associated with poor economic growth performance in sub-Saharan Africa, such as low schooling, political instability, underdeveloped financial systems, and insufficient infrastructure, can be statistically explained by high ethnic fragmentation.

5.b.Greater Social Fractionalization

- The greater the ethnic, linguistic, and religious diversity of a country, the more likely it is that there will be internal strife and political instability.
- Some of the most successful development experiences South Korea, Taiwan, Singapore, and Hong Kong have occurred in culturally homogeneous societies in other words ethnic problems were not there.
- But today, more than 40% of the world's nations have more than five significant ethnic populations . In most cases, one or more of these groups face serious problems of discrimination, social exclusion, or other systematic disadvantages.
- Over half of the world's developing countries have experienced some form of interethnic conflict.

5.c.Greater Social Fractionalization

- Ethnic and religious conflicts leading to widespread death and destruction have taken place in countries as diverse as Afghanistan, Rwanda, Mozambique, Guatemala, Mexico, Sri Lanka, Iraq , Kyrgyzstan, Somalia, Ethiopia , Myanmar, Sudan, the former Yugoslavia , Indonesia.
- Throughout Latin America, indigenous populations have significantly lagged behind other groups on almost every measure of economic and social progress. Whether in Bolivia, Brazil, Peru, Mexico, indigenous groups have benefited little from overall economic growth.

5.d.Greater Social Fractionalization

- But is also true that ethnic and religious diversity need not necessarily lead to inequality, turmoil or instability.
- There have been numerous instances of successful economic and social integration of minority or indigenous ethnic populations in countries as diverse as India ,Malaysia and Mauritius.
- The important point is whether the ethnic and religious composition or diversity of a developing nation leads to conflict or cooperation can be important determinants of the success or failure of development efforts.

6.a.Larger Rural Populations but Rapid Rural-to-Urban Migration

Region	Population (millions 2009)	Urban share (%)
World	6810	50
More developed countries	1232	75
Less developed countries	5578	44
Sub Saharan Africa	836	35
Nothern Africa	205	50
Latin America & C.Sea	580	77
West Asia	231	64
South Central Asia	1726	31
South East Asia	597	43
East Asia	1564	51
Easter Europe	295	69

6.b.Larger Rural Populations but Rapid Rural-to-Urban Migration

- One of the major characteristics of economic development today is a shift from agriculture to manufacturing and services.
- The share of urban population in the world as a whole has crossed 50% as seen in previous slide .It means more people live in cities than in rural areas.
- As far as developing countries are concerned, a much higher share of the population lives in rural areas, and correspondingly fewer in urban areas, as seen in Table on previous slide.
- But a massive population shift is also under way as hundreds of millions of people are moving from rural to urban areas, fueling rapid urbanization
- But at the same time sub-Saharan Africa and most of Asia still remain predominantly rural.

7.a.Lower Levels of Industrialization and Manufactured Exports

- Industrialization is associated with high productivity and incomes and has been a hallmark of modernization and national economic power.
- That is why most developing countries have made industrialization a high national priority, with a number of prominent success stories in Asia.
- Generally, developing countries have a far higher share of employment in agriculture than developed countries.
- Moreover , in developed countries, agriculture represents a very small share of both employment and output. For example it is about 1% to 2% in Canada, the United States and United Kingdom.

7.b.Lower Levels of Industrialization and Manufactured Exports

- In Madagascar while about 82% of both men and women worked in agriculture , it represented only a quarter of total output. In Indonesia, 41% of both men and women worked in agriculture, but it represented just 14% of output.
- There is also a gender perspective in this regard.For example in Latin America a significantly higher proportion of men work in agriculture than women;
- But in many countries in Africa and Asia, a larger proportion of women work in agriculture.

7.c.Lower Levels of Industrialization and Manufactured Exports

- Structural transformation of employment has been occurring in developing countries.
- During 1990-1992 to 2008-11 there have been substantial declines over this two-decade period in the share in employment in agriculture in most developing countries.
- For example, in Indonesia the proportion of men who work in agriculture fell from 54% to 37%; and the proportion of women who work in agriculture fell from 57% to 35%.

7.d.Lower Levels of Industrialization and Manufactured Exports

- At the same time, the share of employment in industry in many developed countries is smaller now than in some developing countries, particularly among women, as developed countries continue their secular trend to switch to from industry to service sector employment.
- Relatively few countries managed a substantial gain of the fraction in manufacturing in this period; Indonesia, Turkey, and Mexico showed modest gains, particularly for men.
- Other evidence indicates that a large fraction of global manufacturing jobs were gained in one country—China—during this period; but comparable data for China were unavailable for comparison.
- But the share of industrial employment in Africa remains low for both men and women in most countries

7.e.Lower Levels of Industrialization and Manufactured Exports

- Along with lower industrialization, developing nations tended to have a higher dependence on primary export.
- Most developing countries have diversified away from agricultural and mineral exports to some degree.
- The middle income countries are rapidly catching up with the developed world in the share of manufactured goods in their exports.
- However, the low-income countries , particularly those in Africa, remain highly dependent on a relatively small number of agricultural and mineral exports.

8. a. Adverse Geography

- Many analysts argue that geography must plays some role in problems of agriculture , public health, and comparative development.
- For example Landlocked economies, common in Africa, often have lower incomes than coastal economies.
- Developing countries are primarily tropical or subtropical, and this has meant that they suffer more from tropical pests and parasites, endemic diseases such as malaria, water resource constraints, and extremes of heat.
- Even global warming is projected to have its greatest negative impact on Africa and South Asia

8.b. **Adverse Geography**

- The extreme case of favorable physical resource endowment is the oil rich Persian Gulf states.
- At the other extreme are countries like Chad, Yemen, Haiti, and Bangladesh, where endowments of raw materials and minerals and even fertile land are relatively minimal.
- **Resource endowment :** A nation's supply of usable factors of production, including mineral deposits, raw materials , and labour.
- Clearly, geography is not destiny; high-income Singapore lies almost directly on the equator, and parts of southern India have exhibited enormous economic dynamism in recent years

9.a.Underdeveloped Markets

- Imperfect markets and incomplete information are far more prevalent in developing countries, with the result that domestic markets, notably but not only financial markets, have worked less efficiently.
- Some aspects of market underdevelopment are that they often lack –
- (1) a legal system that enforces contracts and validates property rights;
- (2) a stable and trustworthy currency;
- (3) an infrastructure of roads and utilities that results in low transport and communication costs so as to facilitate interregional trade;

9.b.Underdeveloped Markets

- (4) a well-developed and efficiently regulated system of banking and insurance, with broad access and with formal credit markets that select projects and allocate loanable funds on the basis of relative economic profitability and enforce rules of repayment;
- (5) substantial market information for consumers and producers about prices, quantities, and qualities of products and resources as well as the creditworthiness of potential borrowers; and
- (6) social norms that facilitate successful long-term business relationships

9.c.Underdeveloped Markets

- **Imperfect market :** A market in which the theoretical assumptions of perfect competition are violated by the existence of, for example, a small number of buyers and sellers, barriers to entry, and incomplete information.
- **Incomplete information :** The absence of information that producers and consumers need to make efficient decisions resulting in underperforming markets.

10.a.Lingering Colonial Impacts and Unequal International Relations

- **<u>Colonial Legacy</u>** : Most developing countries were once colonies of Europe or otherwise dominated by European or other foreign powers,
- Institutions created during the colonial period often had harmful effects on development.
- Both domestically and internationally, developing countries have more often lacked institutions and formal organizations of the type that have benefited the developed world.
- Even several decades after independence, the effects of the colonial era linger for many developing nations, particularly the least developed ones.

10.b.Lingering Colonial Impacts and Unequal International Relations

- **External Dependence :** Relatively , developing countries have also been less well organized and influential in international relations, with sometimes adverse consequences for development.
- For example, agreements within the World Trade Organization (WTO) and its predecessors, concerning matters, such as agricultural subsidies in rich countries that harm developing-country farmers and one-sided regulation of intellectual property rights have often been relatively unfavorable to the developing world.

10.c.Lingering Colonial Impacts and Unequal International Relations

- More generally, developing nations have weaker bargaining positions than developed nations in international economic relations.
- Developing nations are also dependent on the developed world for environmental preservation, on which hopes for sustainable development depend.
- One of the greatest concern is that global warming is projected to harm developing regions more than developed ones;
- yet both accumulated and current greenhouse gas emissions still largely originate in the high-income countries, despite the role of developing-country deforestation and growing emissions from lower middle-income countries such as China and India.

2.5 How Low-Income Countries Today Differ from Developed Countries in Their Earlier Stages:

Physical and Human Resource Endowments

●Most less developed countries are poorly endowed (especially Asia). Also parts of Africa and Latin America require heavy investment to exploit the resources

●The difference in skilled human resource endowments is even more pronounced

●Romer: the technology gap between rich and poor nations are divided into an object gap (factories, roads, etc) and an idea gap (also called ingenuity gap: business knowledge, worker motivation, etc) No such human resource gaps existed for now developed countries on the eve of industrialization.

Relative Levels of Per Capita Income and GDP

●Living standards of now developed were not great during industrialization, but they certainly weren't economically debilitating as they are now for developing countries

Climatic Differences

- Economically most successful countries are located in the temperate zone – this dichotomy cannot be ignored, although the effects of climate might be explanatorily limiting on the greater scheme of inequality etc.

Population Size, Distribution, and Growth

- Before and during their early growth years, Western nations experienced a very slow rise in population growth – this is not the case for most developing countries now.

The Historical Role for International Migration

- International migration was a major outlet for excess rural population in the 19th and early 20th century – home governments were relieved of costs of providing for the unemployed, plus a not insignificant portion of foreign earnings were being sent back home
- Mass emigration has very little scope for reducing pressures of overpopulation in developing countries now
- US: immigration has been a problem and people feel like immigrants are taking advantage = backlash against them – Proposition 187 in California taking away benefits..

●Also many of the people who immigrate are the ones that are most needed by the home countries, aka the educated and skilled – they move permanently = “brain drain” loss of valuable human resources
●Paradoxically, might be benefit of “brain gain” where people might be encouraged to acquire skills

The Growth Stimulus of International Trade

●Non-oil exporting developing countries are unable to generate rapid economic growth through world trade – their terms of trade have declined over years (price received for exports relative to price to be paid for imports)
●When developing countries become lower-cost producers of competitive products with developed countries, the latter set up barriers to trade (tariff and non)

Basic Scientific and Technological Research and Development

●*Capabilities* Scientific and technological advance largely concentrated in rich countries

●Poor countries do not have the financial resources or the scientific and technological know-how to undertake the kind of research and development (R&D) that is in their economic long-term interest.
●Not in advance over anyone…

Efficacy of Domestic Institutions

●Douglass North: “even if the formal rules may be changed overnight, informal rules usually change only ever so gradually”

● Developed countries also usually enjoyed relatively stronger political stability and more flexible social institutions with broader access to mobility.

●Especially in Africa, colonizers more arbitrarily determined national boundaries.

4.6 Are Living Standards of Developing and Developed Nations Converging?

Divergence: **A tendency for per capita income (or output) to grow faster in higher-income countries than in lower-income countries so that the income gap widens across countries over time (as was seen in the two centuries after industrialization began).**

Convergence: **The tendency for per capita income (or output) to grow faster in lower-income countries than in higher-income countries so that lower-income countries are "catching up" over time. When countries are hypothesized to converge not in all cases but other things being equal (particularly savings rates, labor force growth, and production technologies), then the term conditional convergence is used.**

At the dawn on the industrial era, real living standards in richest countries were no more than 3 times as great as poorest countries – now, ratio is almost 100 to 1.

If growth experience were similar, technology transfer and more rapid capital accumulation would explain that developing countries are catching-up by growing faster on average than developed countries.

- Technology transfer: developing countries could "leapfrog" over earlier stages of technological development, learn from past mistakes and move to high-productivity methods
    - By some examples, the later a country begins modern economic growth, the faster they can double output per worker.

●**More rapid capital accumulation:**

law of diminishing returns dictates that the impact of additional capital on output should be smaller in developed countries who have a lot of capital already, whereas it is scarce in developing countries.

●Although **China and South Asia** have had larger growth rates than **OECD** countries in 1990-2003 period, many of the poorest countries remain in relative stagnation.

Evidence of unconditional convergence is hard to find
but there is increasing evidence of "per capita income convergence," weighting changes in per capita income by population size.

2.7 Long-Run Causes of Comparative Development

- Now we will discuss comparative economic development to further clarify how such an unequal world came about and remained so persistently unequal, and
- We examine other factors in comparative development, such as nations’ levels of inequality.
- We will come to appreciate why so many developing countries have such difficulties in achieving economic development.
- In other words we will see a schematic framework for appreciating the major long-run causes of comparative development.

Clonialism-1

- It is quite clear that colonialism played a major role in shaping institutions that set the “rules of the economic game,” which can limit or facilitate opportunities for economic development .
- Most developing countries were once colonies.
- In the colonies, unfavorable institutions were therefore established by colonial powers, favoring extraction over production incentives.
- It has been argued that for various reasons, earlier colonization generally involved more plunder and less active production than later colonization, although both happened at the cost of the indigenous populations.

Clonialism-2

- Early development in Europe gave it advantages over most other regions—advantages that were used to colonize much of the world.
- Geography undoubtedly influenced early economic history in Europe
- In particular Europeans brought better agricultural techniques to the later-settled areas such as North America. Thus, pre colonial (potential) comparative advantage again mattered.
- The possible role played by specific skills also points up the importance of human capital investments for development.
- Thus, the types of colonial regimes established, while always designed for the benefit of the colonizers, were influenced by local and European supply and demand factors. The type of regime had enormous influence on postcolonial institutional quality

Physical Geography-1

- Some economists doubt that physical geography, including climate, has had an important impact on economic history.
- However, for example, there is some evidence of an independent impact of malaria and indications that in some circumstances, landlocked status may be an impediment to economic growth;
- Geography affected the types of colonies established . It can be understood by seeing the effect of geographic features for example settler mortality rates.
- When potential settlers faced higher mortality rates or perhaps other high costs, they more often ruled at arm’s length and avoided large, long-term settlement.

Physical Geography-2

- For example pre colonial comparative advantage and labor abundances in the Americas and their relation to the institutions established can be seen.
- When climate was suitable for plantation agriculture (particularly sugarcane in the early history), slavery and other types of mass exploitation of indigenous labour were introduced.
- In other areas like Spain, when indigenous peoples were in sufficient numbers and mineral wealth was available, vast land grants were established.
- Although resulting from different comparative advantage (for example-sugarcane and minerals) economic and political inequality remained high in all of these economies which had long-lasting negative effects on development.

Economic Institutions

- Economic Institutions plays an important role in comparative development.
- It shapes interactions or "**rules of the game**" in an economy, including :
- ***formal rules*** embodied in constitutions, laws, contracts, and market regulations, plus
- ***informal rules*** reflected in norms of behavior and conduct, values, customs, and generally accepted ways of doing things.
- In other words economic institutions provide the base for a market economy by establishing -
- the rules of property rights and contract enforcement;
- improving coordination;
- restricting coercive, fraudulent, and anticompetitive behavior;
- providing access to opportunities for a broad population;
- constraining the power of elites; and
- managing conflict more generally.

Inequalities-1

- Early inequities were perpetuated because in the colonies there were limits on the non elite population’s access to land, education, finance, property protection, and voting rights, as well as labor markets.
- This prevented opportunities to take advantage of industrialization ,when they emerged in the nineteenth century, a period when broad participation in commercial activity had high social returns.
- Besides creating specific institutions, European colonization created or reinforced differing degrees of inequality , ultimately leading to diminished prospects for growth and development, notably in Latin America and the Caribbean.

Inequalities-2

- The degree of inequality itself can shape the evolution of institutions as well as specific policies.
- Where inequality was extreme, there was less investment in human capital and other public goods and a tendency of less movement toward democratic institutions .
- Thus, extreme inequality is likely to be a long-term factor in explaining comparative development. This is raised in the striking historical contrast between the states of North America and the states of Central and South America.

Human Capital-1

- Institutional quality affects the amount and quality of investments in education and health.
- In countries with higher levels of education, institutions tend to be more democratic, with more constraints on elites.
- human capital is at least as fundamental a source of long-run development as institutions.
- However, in some cases extractive colonial institutions left a legacy that resulted in poor health and education decades after independence , an example from India.

Human Capital-2

- Human capital has a direct impact on income and on human development.
- The depth and breadth of education in the population will help determine the effectiveness of government as a force for development.
- This is due not only to a better-qualified civil service but also to the understanding of citizens of poor government performance and the knowledge of how to work for a better outcome and capacity to organize .
- Of course, education could also independently affect the organization and functioning of markets

Postcolonial institutions-1

- Postcolonial institutional quality has a strong impact on the effectiveness of the private, public, and citizen (or civil society) sectors.
- Democratic governance , rule of law, and constraints on elites will encourage more and better quality public goods,
- Better property rights protections and contract enforcement for ordinary citizens and broad access to economic opportunities will encourage private investments.
- And institutions will affect the ability of civil society to organize and act effectively as a force independent of state and market.

Suggestions-1

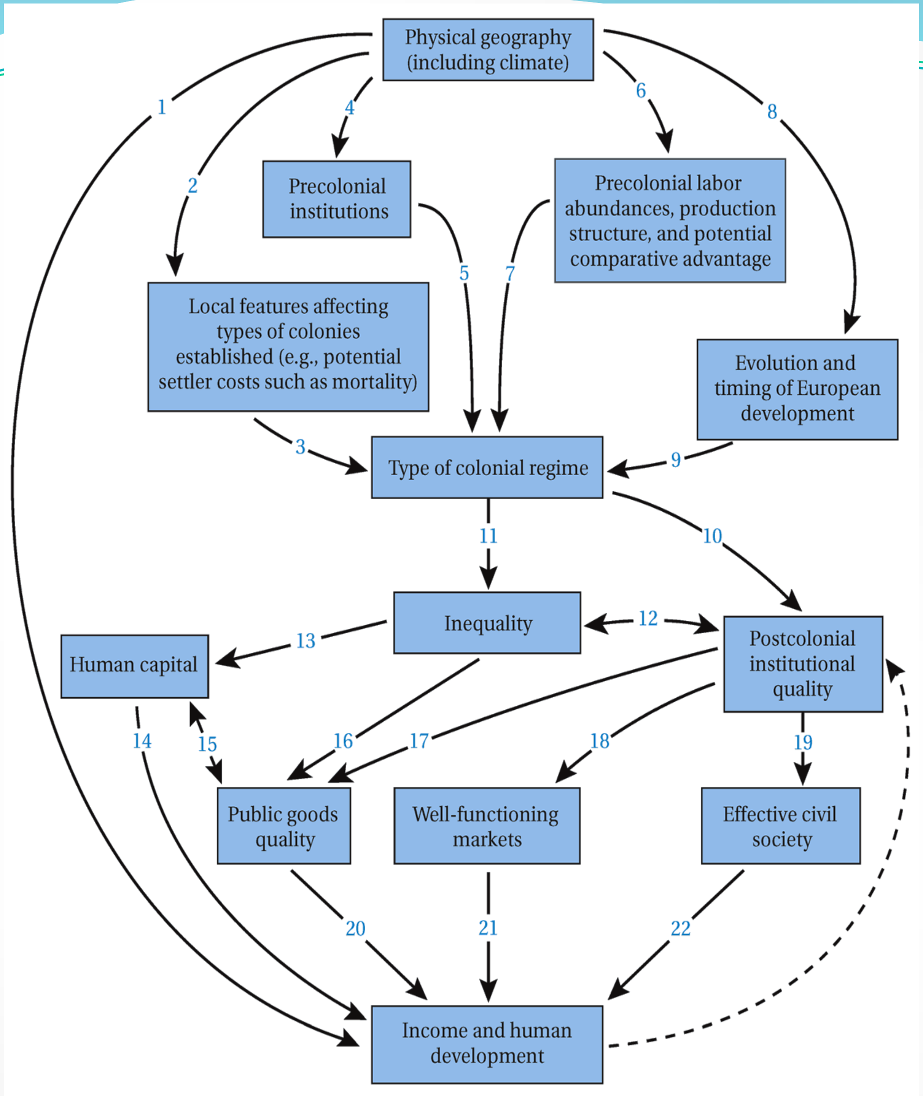
- It is not yet entirely clear which economic institutions are most important in facilitating development.
- But a key finding of recent research is that, forces, that protect narrow elites in ways that limit access of the broader population to opportunities for advancement are major obstacles to successful economic development.
- Nevertheless, in most countries with poor institutions, there is still much that can be done to improve human welfare and to encourage the development of better institutions.

Suggestions-2.

- Although the evidence of the impact of democracy on growth in the short term is not strong, in the long run democratic governance and genuine development do go hand in hand.
- The steady spread of more genuinely democratic institutions in the developing world is very encouraging sign.
- Development strategies that lead to greater human capital, improve access to new technologies, produce better-quality public goods, improve market functioning, address deep-rooted problems of poverty, improve access to finance, prevent environmental degradation, and foster a vibrant civil society all promote development.

Suggestion-3

- The type and quality of global integration (particularly trade) have been stressed as a boon to long-run growth and development in many World Bank reports.
- Trade may be beneficial in that it provides various kinds of access to technology.
- Greater openness to trade beneficially affects the subsequent evolution of institutions.



Some research suggests that when other factors are taken into account, geography adds little to our understanding of development levels.

Arrow 2: geography could affect types of colonies established – when potential settlers faced higher mortality rates, they often kept arm's-length = "steal -fast-and-get-out" = unfavorable institutions favoring extraction over production incentives

Arrow 3: those with more bargaining power to ask for better treatment …

Accemoglu: after accounting for institutional differences, geographic variables have little influence on incomes today.

Arrow 4: influence of geography on precolonial institutions

Arrow 5: precolonial institutions also mattered to the extent that they had influence over the type of colonial regimes established.

In Americas, scarce labour with abundant land inhibited the concentration of power (despite efforts of colonizers to do so). The need to attract more settlers and encourage them to engage the colonial economy led to the evolution of more egalitarian institutions in North American colonies.

Arrow 8: geography undoubtedly influenced early economic history in Europe, leading to evolution and timing of European development.

Arrow 9: timing of European development influenced the type of colonial regime established – earlier colonization generally involved more plunder and less active production than later colonization, although both at expense of indigenous population.

Arrow 10: type of regime had enormous influence on postcolonial institutional quality

Arrow 11: colonization created or enforced inequality (especially ethnic), leading to lesser prospects for growth and development

Where inequality was extreme, there was less investment in human capital (arrow 13) and other public goods (arrow 16), and as reflected by the bidirectional arrow 12, a tendency of less movement toward democratic institutions

Arrow 14: human capital has a direct impact on income and human development

Arrow 15: the depth and breadth of education in the population will help determine the effectiveness of government as a force for development. – better qualified civil service, better organizational capacities, better recognition of poor government and how to work towards better outcomes…

Arrow 17: democratic governance, rule of law, and constraints on elites will encourage more and better quality public – will spur private investment (**arrow 18**)

Arrow 19: institutions will affect ability of civil society to organize and act independently of market and state

Arrows 20, 21, 22: activities of the three sectors will each have influence on productivity and incomes, and on human development more generally.

"Clearly there are multiple paths to economic development. But a key finding is that forces that protect narrow elites in ways that limit access of the broader population to opportunities for advancement are major obstacles to successful economic development. If institutions are highly resistant to attempts at reform, this helps clarify why development is so challenging."

Dani Rodrik: “participatory and decentralized political systems are the most effective ones we have for processing and aggregating local knowledge. We can think of democracy as a meta-institution for building other good institutions”

Conclusion

One can learn valuable lessons from economic policies that have been tried in various countries around the world. However, for most poor countries, backwardness comes with severe disadvantages, many of which have been compounded by legacies of colonialism, slavery, and Cold War dictatorships.

CASE STUDY: Pakistan and Bangladesh

- Bangladesh declares independence from Pakistan in 1971 wide disparities at separation, with Pakistan much better off.
- Interesting to compare because about the same population, both are in South Asian region, are both overwhelmingly Islamic, and both were once part of colonial British Raj of India.

- **Pakistan:** “growth without development“
- **Bangladesh: although poor, is transforming to a symbol of hope**
- **Growth** PPP-adjusted incomes remain slightly higher in Pakistan, but Bangladesh is on a trend to surpass Pakistan.
- **Poverty** Bangladesh has fewer in poverty
- **Education and Literacy** literacy has been growing in Bangladesh (although at low 41% in both countries), but with greater gender equality in Bangladesh – also, clear edge in combined school enrollments
- **Health** similar life expectancies, but under-5 mortality rates have fallen dramatically in Bangladesh, while staying steadily high in Pakistan.
- **HDI** Bangladesh achieved middle human development status before Pakistan, but Pakistan has now surpassed Bangladesh perhaps due to growth from aid associated with war on terror.

Population fertility has fallen in Bangladesh

Geography Bangladesh at considerable disadvantage

Bangladesh is very ethnically homogenous; Pakistan is not.

Governance and role of military military withdrawal from politics in 90s in Bangladesh as probable factor in progress; military is very present in Pakistani politics

–Both have very weak governments, not democratic, hardly transparent

–But, Bangladesh has one of the most vibrant NGO sectors in the world.

Thank Y