

The **BIG** ideas!

webnote 480

Syllabus

4.8

I.b Syllabus 4.1: Economic Development

**Syllabus 180-184**

Big Idea

**1**

Webnote 410 Big Ideas  
for 4.1

# ABSOLUTE POVERTY



# MDG's



Big Idea

1

# Which is better to reduce poverty? Market or state?

Webnote 481: syllabus 4.8 Markets + Intervention

Market or government: what best promotes development?

## Market: = resource allocation system

- outward oriented strategy
- market based strategy
- free enterprise strategy
- free trade approach to development strategy
- laissez faire (let the market do/ Adam Smith)
- market function in terms of " signalling and incentive" i.e. resource allocation mechanism
- Profit motive " incentive function of market".
- Market mechanism allocates resources effectively : better resource allocation
- Privatization (firms privately owned)- firms and households benefit from higher wages and higher profits
- More growth: more resources available for development
- Government receives more tax revenue
- FDI encouraged.
- MNC's are welcome to do business in the domestic nation
- Market based / outward oriented strategy promotes free trade ie reduction of trade taxes (tariffs) and membership of the WTO (World Trade Organization) that supports free trade

### Result:

1. Growth
2. Development (conditions necessary for)
3. Employment
4. Resource Allocation and efficiency

## State: = resource allocation system

- Intervention by government is common
- planned/command economy is the extreme
- import substitution strategy common
- aid is key part of development strategy
- state owned monopolies are common (these are inefficient producers)

- Government dominates economy and restrictions in place on markets or even an outright ban on market activity ( command economy)
- Nationalization (state owned enterprises) common
- Low productivity (o/p per worker per hour low)
- Low growth in economy: consequence of this is low development
- Poverty common (including absolute poverty)
- Problems with corruption

### Result:

1. Economy stagnates
2. Relative (to comparable nations) and absolute poverty (lack of food, shelter and clothing) evident

# IBQ's

**N.B. Enter Questions: most recent on -top**

1. Using information from the text/data and your knowledge of economics, discuss the possible impacts of market-oriented and interventionist policies on Indonesia's economic development. **(Question 3d. M17/3/ECONO/HP2/ENG/TZ0/XX/M)**
2. (d) Using information from the text/data and your knowledge of economics, discuss the possible outcomes of a move away from government intervention and towards more market-oriented strategies in Botswana (paragraph ). [8]  
**N15/3/ECONO/HP2/ENG/TZ0/XX**
3. Using information from the text/data and your knowledge of economics, evaluate the view that a balance between market-oriented policies and government intervention is needed in order to promote economic development in Cuba. **(Question 3d, M13/3/ECONO/SP2/ENG/TZ0/XX)**