

4.3: 2 IBQ's for Domestic Factors

8 themes in development:

1. development + growth
2. measuring development
3. **domestic factors**
4. international trade
5. FDI
6. Aid
7. indebtedness
8. aid or trade?

SECTION B3. *Study the extract below and answer the questions that follow.*

Answer one question from this section.

China: Money to invest for a better future

❶ In 2005, Madam Xiao Jinqiu was barely making enough to feed her two sons. Now she earns a living by weaving traditional fabrics, bags and scarves for sale and rearing livestock – all with the help of an annual micro-loan given out by a local non-profit group.

❷ By borrowing between 1000 yuan and 3000 yuan (US\$152 and US\$456 respectively) a year, she has been able to earn enough to invest in a better life for her family. She is among a growing number of poor villagers in China who have found a lifeline in **micro-credit**, which allows families the opportunity to escape from the **poverty trap**. Such schemes have existed in China for some years, but the number of borrowers remains low.

❸ China's state banks are now trying to offer its 720 million rural residents more access to micro-credit, but two key barriers still stand in the way. Many remote areas remain inaccessible to banks and farmers often do not have belongings or assets that can be used as security for the loans. Almost 3000 rural townships in China – around 9 % of the country's total – do not have a bank. This is where private banks and non-profit groups can make a difference.

❹ Almost half of the 170000 population of Yunnan Province lives under China's poverty line of 1196 yuan per capita annually. Almost 36 million of China's rural residents, or 3.6% of the population in the countryside, were living below the poverty line at the end of 2009, according to official data.

❺ Micro-credit is still rare in China, but it is a very effective way to reduce poverty. The key is to find a way to establish trust between lender and farmer. China's farmers do not own the land they cultivate. They have only land-use rights, which means that they cannot use the land they farm as security for a loan.

❻ One solution to this problem is to group several farming families together and make them co-guarantors of one another's loans, spreading the risk. An official from one lending organization, which lends only to married women, said: "Women are less likely to default. They take charge of household finances. They have self-respect". [Source: *The Straits Times*, 15 November 2010]

- . (a) (i) Define the term *micro-credit* indicated in bold in the text (*paragraph ❷*). (ii) Define the term *poverty trap* indicated in bold in the text (*paragraph ❷*).
- . (b) Using a diagram, explain how the use of micro-credit might affect the distribution of income in rural areas of China.
- . (c) Using a production possibility curve (PPC) diagram, explain how micro-credit schemes can affect the actual output and the production possibilities of an economy.
- . (d) Using information from the text/data and your knowledge of economics, evaluate the use of micro-credit in promoting economic development in economically less-developed countries.

[2 marks] [2 marks]

5. Study the extract below and answer the questions that follow.

Micro-credit schemes help Colombian refugees rebuild lives in Venezuela

- ❶ When Andres fled to Venezuela from Colombia one of the first things he did was to call the local police to ask if he was entitled to look for work. The answer was yes. Andres decided to switch from farming; and with a talent for mechanics, and a reputation for being able to fix tractors and trucks, he wants to open a small car repair workshop.
- ❷ Andres is applying for micro-credit to begin his business. His loan is less than US\$200, but it will allow him to buy some tools and even print leaflets to advertise his workshop. He intends to repay the money quickly to apply for a larger loan.
- ❸ “Micro-credits are not only about income generation”, says Jose Sieber, United Nations Refugee Head, “they also serve to rebuild the self-confidence of people who have lost everything. The vast majority of people who get a loan, repay it, not just on time, but even before schedule. The money goes back into the programme with the idea that little by little we will have more money to lend out”.
- ❹ Micro-credit is seen as an invaluable tool for reducing poverty, promoting self-sufficiency and stimulating economic activity in some of the world’s poorest communities. It is seen as a wise investment in **human resources**. When the poorest, especially women, receive credit, they become economic participants with power, to not only determine their own lives, but also the lives of their families and communities.
- ❺ Micro-credit can enable a poor person with some skills and capabilities to enter the labour market. However, micro-credit must also be supported by other government assistance to help improve services such as health care, clean water, schools and roads.
- ❻ In addition, foreign direct investment should be encouraged. It can add to a country’s savings and increase **investment** expenditure, and in so doing, potentially increases the amount of employment and income in the economy.

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[Source: adapted from <http://www.unrefugees.org.au/situation-reports/micro-credit-scheme-helps-colombian>, 1 May 2007]

(This question continues on the following page)

(Question 5 continued)

(Question 5 continued)

(a)

Define the following terms indicated in bold in the text:

- . (i) human resources (*paragraph 4*)
- . (ii) investment (*paragraph 6*).
- . (b) Using an appropriate diagram, explain how investment in human resources can lead to an increase in the potential output of a country.
- . (c) Using an AD/AS diagram, explain how an increase in investment expenditure can, potentially, increase employment (*paragraph 6*).
- . (d) Using the information from the text/data and your knowledge of economics, evaluate the role of micro-credit as an instrument of economic development in Venezuela.

[2 marks] [2 marks]

[4 marks] [4 marks]

[8 marks]

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