

Introduction to Development Economics

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Key concepts, objectives, and analytical tools for understanding how economies grow and improve living standards.

1. What Is Development Economics?

Aspect	Description
Definition	The branch of economics that studies the process of economic development, the factors that promote or hinder it, and policies that can improve welfare in low- and middle-income countries.
Scope	• Income growth and poverty reduction • Structural transformation (agriculture → industry → services) • Human development (health, education, gender equity) • Institutional quality (property rights, governance) • Environmental sustainability
Distinct from	Traditional “growth” economics (focuses mainly on GDP). Development economics adds distributional issues, social welfare, and the role of institutions.

2. Core Objectives of Development Economics

1. **Raise Per-Capita Income** – Sustainable increase in average output per person.
 2. **Reduce Poverty & Inequality** – Lower the share of population living below the poverty line and narrow income gaps.
 3. **Improve Human Capital** – Expand access to quality health care and education.
 4. **Promote Structural Change** – Shift labor and resources toward higher-productivity sectors.
 5. **Strengthen Institutions** – Build effective legal systems, transparent governance, and secure property rights.
 6. **Ensure Environmental Sustainability** – Align growth with the preservation of natural resources.
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3. Theoretical Foundations

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Theory	Main Idea	Policy Implication
Classical/Neoclassical Growth (Solow)	Long-run growth driven by capital accumulation, labor, and exogenous technological progress.	Emphasize savings/investment and openness to technology.
Harrod-Domar Model	Growth depends on the savings rate and the productivity of capital (incremental capital-output ratio).	High savings & investment are necessary for rapid growth.
Lewis Dual-Sector Model	Traditional (agriculture) sector supplies surplus labor to a modern (industrial) sector, which drives growth.	Promote industrialization and labor migration.
Endogenous Growth (Romer, Lucas)	Technological change is generated within the economy via R&D, human capital, and knowledge spillovers.	Invest in education, research, and innovation systems.
Structural Change Theories (Kuznets, Harris-Todaro)	Development involves reallocation of resources across sectors and urban-rural migration.	Support infrastructure, urban planning, and rural development.
Institutional Economics (North, Acemoglu)	Institutions shape incentives and thus economic outcomes.	Reform property rights, reduce corruption, improve governance.
New-Economic-Geography	Spatial concentration of economic activity creates agglomeration economies.	Invest in transport, connectivity, and balanced regional policies.

4. Key Empirical Indicators

Category	Common Indicators
Income	GDP per capita (PPP), GNI per capita, median household income
Poverty	Poverty headcount ratio, poverty gap, multidimensional poverty index (MPI)
Inequality	Gini coefficient, income shares of top/bottom quintiles
Human Development	Life expectancy, literacy rate, school enrollment, HDI

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Category

Common Indicators

Health	Infant mortality, maternal mortality, disease prevalence
Infrastructure	Access to electricity, clean water, road density, internet penetration
Institutional Quality	Rule of