

Q= What is meant by economic development?  
 Compare economic growth and development?  
 Compare and contrast measures of economic development?

A=

## Economic Development

According to Michael Todaro, economic development refers to the increase in human well being, rise in human needs, freedom from oppression and greater choices.

Economic development is a wider concept for an overall economy well-being. It encompasses, expansion in national output, technological advancement, increase in living standards, social and political modernization etc.

Economic development of a country is its real indicator that describes its well being in terms of monetary as well as non-monetary factors.

If per capita income of a country is high, it indicates a high standard of living.

# Difference between Economic Growth and Development

Aspects	Economic Growth	Economic Development
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1) **Definition** Economic growth It refers to the increase in gross domestic product along with social and services over a well-being of people period of time.

2) **Concept** It is a narrow concept. It is wider than economic growth.

3) **Nature** It is monetary in nature. It is monetary as well as non-monetary in nature.

4) **Relevance** It is related to mostly developing countries/nations. It is related to developed countries.

5) **Nexus between each other** Economic growth exist without economic development. It does not occur without economic growth.

5) **Measurement** It is measured by calculating the increase in Gross domestic product over time. It is measured through HDI index, Per capita income, Physical quality life index etc.

6) **Time frame** It can occur in short period of time. It is a long process.

7) **Impact on Human Development** It doesn't necessarily leads to human development due to inequality in income distribution. It encompasses policies and programs for the human development.

8) **Income inequality** It sometimes exacerbate income inequality in economy. Economic development aims to reduce income inequality.

9) **Scope** It is narrow in scope. It is wider in scope.

10) **Relation to Type of Economics** It is related to positive economics. It is related to positive as well as normative economics.

|| Gf per capi ... ||

## Methods of measuring Economic Development

Different methods are employed by different countries for measuring economic development. Some of them are as follows:

### 1) Gross National Product As Criterion of Economic Development

Gross national product is also a method for measure the economic development. It refers to production of goods and services within an country produced by the nationals of a country either in its boundaries or abroad.

Increase in GNP is a reflection of the economic development of a country.

Rise in GNP

Rise in standard of living

Social well being of country

So, if GNP of a country rise over a period of time, it is regarded as it is economically developing.

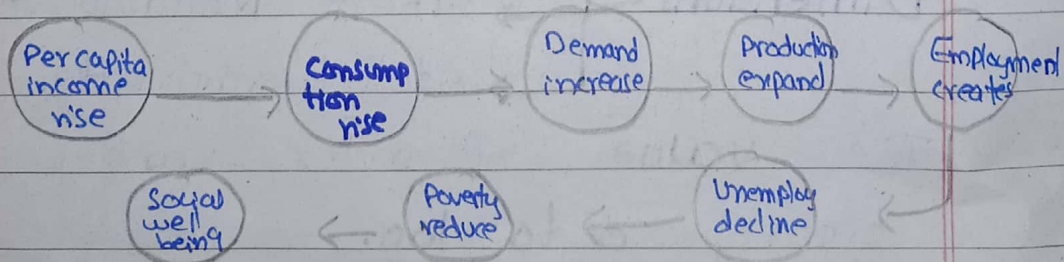
## Weaknesses of Method

- 1) This method does not encompass other important dimensions like health, education, life expectancy, social factors etc.
- 2) It is possible if a country's GNP rise but its living standard does not improve due to population increase as case of Pakistan.

## 2) Per Capita Income Approach

Per capita income refers to the income per person and is obtained by dividing total national income of country by its total population.

If per capita income of a country rise it means living standard of country has risen. Because due to high per capita income, people can avail better health, education, etc services which enhance their well being.



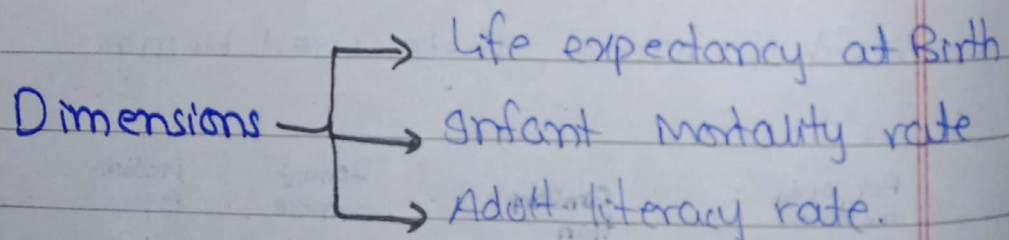
The per capita income of Pakistan is approximately 1500\$, less than India and Bangladesh.

### Weakness of Method

- ) This method ignores income inequality.
- ) It does not take in account social, environmental factors affecting economic development.
- ) It is difficult to compare economies on basis of per capita income due to exchange rate differentials.

### 3) Physical Quality of Life Index

This index was first developed in 1979 by D. Morris. It was widely used for assessing economic development of a country. It has three dimensions:



The value of index ranges from 0 to 100.

Higher the value of index, higher will be the economic and social wellbeing of country.

### Weaknesses

- It gives more weightage to health as it includes two health indicators.
- It ignores economic factors.
- It is difficult to get reliable data on life expectancy at birth.
- It has over-simplified the concept of economic development.

### 4) Human Poverty Index

Human poverty index is given by UN in a report published in 2010.

It encompasses three indicators of survival, education and income decent living style.

Human poverty index contains two indices:

- 1) HPI-1 - for developing countries
- 2) HPI-2 - for developed countries

**Survival:** It means possibility of people of a country reaching  
--- years of schooling =  $\frac{\text{Expected years}}{18}$

Education index =  $\frac{\text{mean years} + \text{Expected years}}{9}$

ages of 40 and 60 for HPI-1 and HPI-2 respectively.

**Knowledge:** It encompasses adult literacy rate.

**Living standard:**

**HPI 1:** measures access to safe water and other basic facilities

**HPI 2:** measures percentage of population below poverty line.

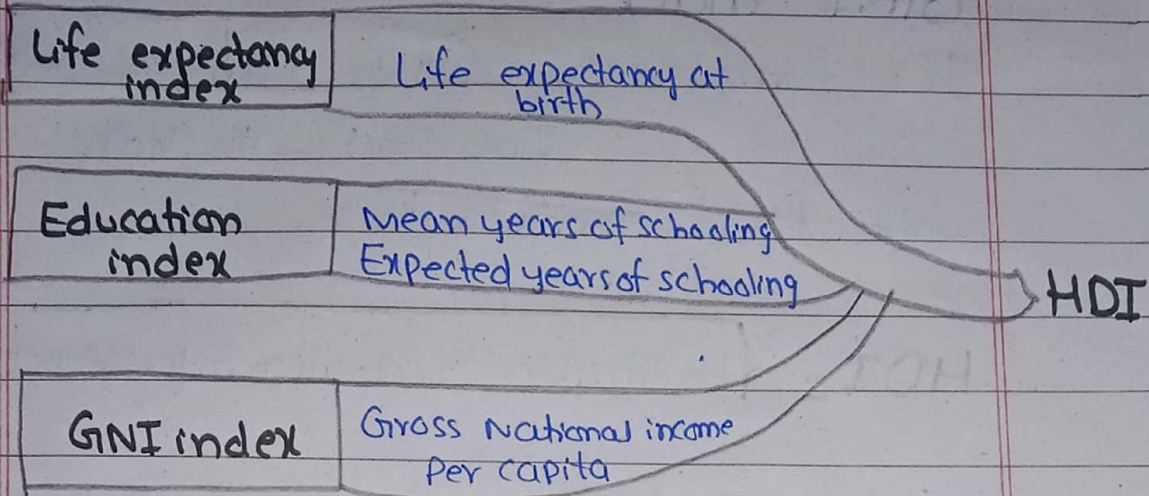
So, it can be regarded as lower the human poverty index value, better is the well being of a country is.

But, this method was replaced by Human development index in 2010.

### 5) Human Development Index

Human development index is a composite index describing the summary of economic development of a country. It consist of three indicators.





## Life Expectancy Index

It measures the life expectancy at birth. If life expectancy is 20 years, then life expectancy index is 0 and if it is 85 years then it has value 1.

$$\text{Life Expectancy} = \frac{\text{Life expectancy} - 20}{85 - 20}$$

## Education Index

It encompasses mean and expected years of schooling.

$$\text{Mean years of schooling} = \frac{\text{Mean years}}{15}$$

$$\text{Expected years of schooling} = \frac{\text{Expect Years}}{18}$$

$$\text{Education index} = \frac{\text{Mean Years} + \text{Expected Years}}{2}$$

## GINI index

It's formula: 
$$\frac{\ln(GINI) - \ln(100)}{\ln(75000) - \ln(100)}$$

While HDI formula is

$$HDI = \sqrt[3]{\text{Health index} \times \text{Education index} \times \text{GINI index}}$$

In 2023, HDI index of Pakistan is 0.540 and ranking is 164<sup>th</sup> out of 193 countries.

While in 2022, Pakistan HDI index was 0.544 and rank was 161<sup>th</sup>.

Pakistan economic development in terms of human development has deteriorated in 2023.

## 6) Happiness Index

Another important method for measuring economic development is happiness index. It assesses happiness level of countries keeping in view 32 indicators. Human index is given on annually basis.

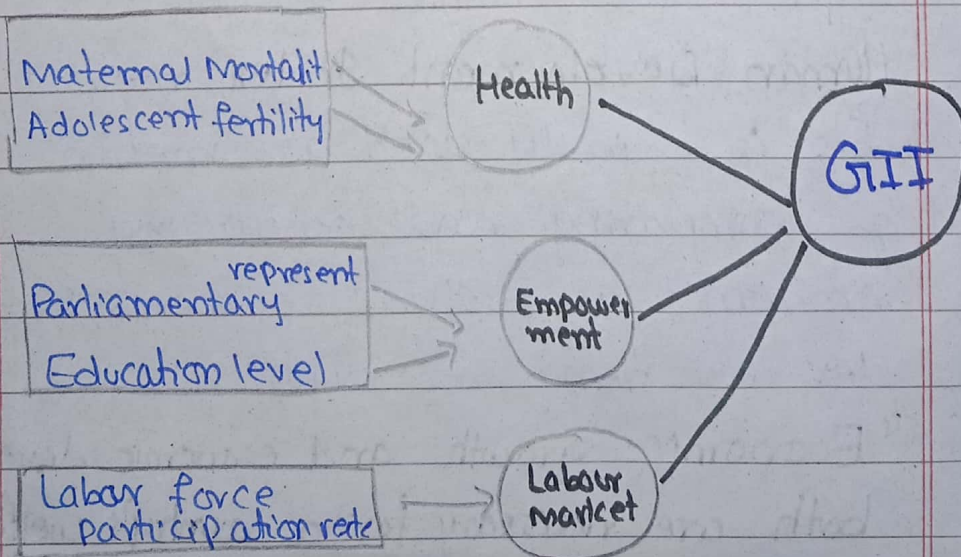
throughout Human Happiness Report. According to 2024, report, Pakistan is ranked 108<sup>th</sup> position. While, on top of list are Finland, Denmark and Sweden respectively.

### 7) Gender Inequality Index

Gender inequality index developed by UN assess how much economic development potential of a country is lost of a country due to gender based inequalities.

Higher the index, lower will be the economic development of country.

It has three indicators:



In 2023, Pakistan rank 142<sup>th</sup> out of 146 countries in Gender Gap report while in 2022, it was ranked at 145<sup>th</sup> position.

### Weaknesses

- ) Only focus on gender inequality.
- ) Ignore health, education, income of male segment.
- ) Neglect social factors hindering economic development.

### Conclusion

Although various methods are being applied by countries for measuring economic development. But, the most appropriate method till yet is Human Development Index method.

This is widely used as metric of comparing and contrasting economic as well as economic social dev well-being of countries.

"Economic growth and economic development both are necessary for a country's welfare."