Economic Development

Rebecca Hernandez
&
Victor Soto
Mr. Bunch/Period 3

Country Wealth

- Economists don't use the terms rich or poor to describe countries. They refer to rich countries as developed countries and poor countries as less developed.
- In our modern world, wealth depends on trade, in goods or services. Trade depends on infrastructure, and infrastructure in turn depends on investment. This is the essence of development. The more 'developed' a country is, the more money it is capable of making. So talking about poor countries, we are talking about Less Economically Developed Countries.
- They're are various reasons a country can be poor. Geographical, political, and cultural factors all come into play.

Geographical Factors the affect development

<u>Climate:</u> One of the most important factors in development is geography, where the country is in the world, and climate. It’s no coincidence that the poorest countries are in the tropics, where it is hot, the land is less fertile, water is more scarce, where diseases flourish. Conversely, Europe and North America profit from huge tracts of very fertile land, a temperate climate, and good rainfall. In extremes of climate, either hot or cold, too much energy goes into the simple business of survival for there to be much leftover energy for development. You have to work twice as hard to get enough to eat out of the ground, you have to irrigate where others can depend on rainfall. It may be too hot to work between 11 and 2, so you lose three hours out of every day. Rain patterns may give you a short growing season, while others can get two harvests in one year. Some countries are just at a natural disadvantage.

<u>Location:</u> All the great empires have been based around trade routes, and these are almost always maritime. Many of the world’s poorest countries are severely hindered because they are landlocked; situated in high mountain ranges; or lack navigable rivers, long coastlines, or good natural harbor's.’ Example, China has three of the world’s busiest ports, and so does the US. With ports you can raise money through tolls and shipping services. If you have no access to the coast, not only do you miss out on these services, you have to transport everything by land, which is much more expensive.

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Resources: Every country has natural resources, some having more than others. Examples are gold, diamonds, and oil etc.

Stability: Finally, environmental stability can be a factor in development. Some countries are more stable than others. You may be in an earthquake zone, and we've all seen what a tsunami can do to a country. This is something that's uncontrollable, countries may face natural disasters some more than others and it can greatly affect the countries economy.

Rapid population growth: The population growth rate is typically higher in less developed countries. The population growth rate is equal to the birthrate minus the death rate.

Political Factors That affect development

- **Poor Management:** There are often political factors involved in why some countries remain poor, and one of those is bad government. Governments need to do lots of things to encourage development – they need to build and maintain infrastructure, and raise and spend finance wisely, on the right projects. When governments are inept at managing infrastructure, development is impossible. Nobody wants to build a factory in a city where the power could go out at any time.
- **Political Instability**: Individuals sometimes do not invest in businesses in less developed countries because they are afraid either that the current government leaders will be thrown out of officer that the government will seize their private property.
- **Corruption**: If you have ever lived in a country where corruption is rife, you will now how frustrating, dis-heartening and fundamentally dis-empowering corruption can be. There's no system, structure or authority. People with power rule and others have to bribe there way through there everyday life.

Cultural and Social Factors the affect development

- **Discrimination**: Sometimes there are social or cultural factors that hold back poor countries. Discrimination is one of these. If there are certain people groups that are discriminated against, the country's overall productivity can suffer. This may be a tribe, a caste, a racial category or minority language group. Racial discrimination may be an issue, excluding certain groups from economic activity, either deliberately or not. Racial minorities regularly have poorer exam results and economic prospects than the majority.
- **Population growth:** The population growth rate is typically higher in less developed countries. Women who stay home usually have more children. There is nothing wrong with having lots of kids as long as you can provide for each and everyone of them. In some countries children are kept to a minimum. However in some cultures its normal to have a lot of kids whiles in others its not.
- **Cultural:** Culture can have hidden affects in business, trade and development. Some cultures are reluctant to depart from the status quo, they refuse to change because they think change is bad. In some countries, people believe that good or bad fortunes depend on fate or the spirits tan how hard a person works.

The Importance of Savings Accounts

Everyone knows it's important to have a savings account. Its emergency money and helps with stability. Not only does a savings account benefit you, it also benefits the economy. Saving accounts are important to the economic growth and development. If saving rated are low, banks will not have much money to lend. Some people argue that less developed countries have low savings rate because people living there are too poor to save. People only have enough to buy their necessities, such as shelter and food, leaving no extra income to save. The situation is called ***vicious cycle of poverty.*** Less developed countries are poor because they cannot save and buy capital goods, so it's a never ending cycle.

Factors that Aid Growth and Development

Free Trade: Countries can hinder or promote international trade. Free trade promotes the production of goods and services in a country and therefore spurs growth and development in two ways. Free trade allows residents of a country t buy inputs from the cheapest supplier, no mater where in the world its located. Free trade also opens up a world market to domestic firms.

Low taxation: Generally a country with low taxes provides a greater incentive to workers to work and more incentive to investors to invest than does a country with high taxes.

Controls of bank lending: The Government controls to whom a bank can lend too. For example, banks cant lend to automobile manufactures but can lend to steel manufacturers. This is because the government id trying to promote a particular industry. Controls of this type often hinder growth and development.