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SUBJECT- ECONOMICS

Dear students
Please read the given content carefully and answer the questions that follow. Write the answers in your Economics notebook.
Read page 6, 8 and 9 of the NCERT textbook.
Refer to the link:
http://ncert.nic.in/textbook/textbook.htm?jess2=1-5

CHAPTER-1 DEVELOPMENT

INTRODUCTION

In this lesson we will take the concept of national development further and discuss the World Bank's criteria of measuring development.

Note: The lesson will appear long and lengthy but it isn't difficult. You must practice the numericals given in the lesson.

NATIONAL DEVELOPMENT- ACCORDING TO THE WORLD BANK

The World Bank uses the **INCOME** criteria to measure national development unlike the United Nations that uses the **HUMAN** criteria of development.

Read Carefully

To use income as the criteria, the World Bank had two options - either to use the total income of a country or the average income.

Total income is known as National Income.
Average Income is known as Per Capita Income.

If the World Bank had used 'total income' as the criteria to measure development, then simply by adding the individual incomes of the people we would have arrived at the total income or the National Income. In simple words, total income is the income of all the people living in a country put together.

However, this criterion would have suffered from a serious drawback. In this case, there would have been a very high chance that a country with more people/population has a higher total income and a country with less people/population has a lower total income.

For example: India's total income, which is more than Australia's, would have made us conclude that India is more developed than Australia, which is wrong.

Therefore, in order to overcome such a drawback, **the World Bank uses average income/Per Capita Income to measure National Development.**

It says that any nation with a higher per capita income is more developed as compared to the others.

<u>How to calculate Per Capita Income?</u>

PCY= Total Income/Total Population

For example: Consider a country which has 5 citizens. If their individual income is 3000, 4000, 3500, 4500 and 5000, what will the country's per capita income be?

PCY= Total income/total population

Total income = 3000+4000+3500+4500+5000=20000

Total population =5

PCY= 20000/5 = 4000

But, even Per Capita Income is not a perfect indicator of development. It also has a weakness. Let us find out this weakness through this activity.

Activity: Do the numerical given in table 1.2 on page 9 of the textbook.

Steps:
Calculate the per capita income of Country A and country B.
You will observe that the per capita income of both the countries is the same, i.e. 10000 each.
But if you look at the individual incomes of both the countries carefully, you will see that country A is better than country B because everyone in A earns almost the equal amount whereas in country B, there are serious variations in the earnings of the people.

Therefore, we can say:

Per Capita Income does not show how the income is distributed among the people. It hides disparities in the distribution of income.

For a nation to be truly developed, the income distribution pattern should be equitable, i.e. everyone should get almost an equal amount.

Unfortunately in India, the income distribution pattern is like Country B's. There are major variations in the earnings of the people. Some are extremely rich while many are extremely poor.

The World Bank classifies the countries into Rich, Middle Income and Poor countries on the basis of PCY (per capita income) and publishes its report known as **WDR (World Development Report).**

According to WDR 2017,

Rich countries have PCY more than US$ 12,056 per annum

Poor countries have PCY less than US$ 955 per annum

Middle income countries have PCY more than …………….. and less than ……………(try to fill it yourself. You can refer to page 8, last paragraph of the textbook)

Note: Learn these figures of the WDR

ACTIVITIES

Suppose there are four families in a country with per capita income of $15000. If the income of three families is $10000, $20000 and $12000 respectively, what is the income of the fourth family?

Give three examples where averages are used for comparing situations.

Suppose the records show that the average income of a country has been increasing over a period of time. From this information, can we conclude that all sections of the economy have become better?

ASSIGNMENT

Q1 Besides the size of income, what other property of income is important for comparing two or more societies?

Q2 Explain the criteria used by the World Bank in classifying countries.

Q3 Enlist the limitation of using averages for measuring development. Illustrate with the help of an example.