(a) How might the employment composition and age structure of a developing country differ from those of a developed country? [12]

(b) Apart from the employment composition and age structure, discuss what changes are likely to occur in a developing country if it progresses towards developed status. Consider whether these changes are always beneficial. [13]

a) Definition of developed and developing economy

Characteristics of Developed Economy

1. Higher GDP per capita
2. More reliance on tertiary sector
3. Most of the country's population lives in urban areas
4. More educated and trained workforce
5. Better infrastructure like physical infrastructure including roads, networks, transportation and soft infrastructure like institutions, policies and rules and regulation
6. Greater provision of public goods including education, health care

Employment Composition

It refers to the distribution of a country's labor force among different sectors of an economy like primary, secondary and tertiary sectors.

Income Classification of Countries

- Low income countries
- Lower middle income countries
- Higher middle income countries
- High income countries

Age Structure

It refers to how a country's population is divided in different age brackets.

Developing countries have a relatively younger population which means that a bigger percentage of their population lies in lower age brackets and on the other hand developed countries have an aging population which means that a bigger proportion of their population lies in older age brackets.

Population Growth Rate = Birth Rates - Death Rates + Net Immigration from Abroad
Why are birth rates high?

Early marriages
Bigger families

- b) Transition away from primary sector towards more secondary and tertiary sector - higher GDP per capita as manufactured goods and services are more valuable than primary products - higher purchasing power means that a typical consumer can afford and consume more and so would be able to enough a higher living standard
- Longer average hours for work force - more stress, more social problems lower marriages, higher divorce rates, higher sucide rates
- Greater access to better quality education and health care
- Better infrastructure
-
- Lower population levels
- Lower crime rates and pollution
-

Most governments aim for full employment and stable prices. Which of those two aims should your government seek to achieve in the coming year and how might this choice affect the other aim? [25]

Answer) Define full employment - operating on its PPC with no unutilized resources
Deflation is never desirable because that discourages producers to invest and expand their production potential given the fact that their product prices are decreasing and so their profit margins are being negatively affected.

Since price levels are increasing at such a rapid pace many consumers are struggling to maintain their lifestyle given the fact that their purchasing power has been seriously eroded.

People with fixed incomes like retired people who are dependent on their pensions and savings are the ones who are affected the most with greatest decrease in their purchasing power.

During periods of high inflation consumers become more careful with their spending by cutting on extra and unnecessary products like entertainment, luxury items and therefore that reduces the demand for those products eventually reducing the profis of producers and making them cut on their production. This cycle will eventually lead to lower GDP meaning lower per person income.

'The rise in interest rates might not have the desired effect of curbing the existing inflation' reported a newspaper in 2002.

(a) Explain what effect a rise in interest rates might have on the level of total expenditure. [12]

(b) Discuss what policies apart from interest rate changes a government might use to control inflation. [13]

Define Monetary Policy: through use of money supply when a country's central bank regulates its interest rates.

Total Expenditure / Aggregate Demand = C + I + G + X - M

How does the rise in interest rates affect total expenditure?

Higher interest rates discourage borrowing and therefore it is expected to reduce both consumption and investment.

Similarly when consumption levels are lower due to expensive borrowing, firms will experience a decrease in theri demand and therefore they would want to invest less in expanding their production potential.

As far as the government spending is concerned it might not be affected if the government has enough revenue through taxes to pay for its expenditure.

If in case the government is facing a budget deficit then it needs to borrow money from its citizens by issuing government bonds or else internationally which will also be raised on interest. Therefore in case of a budget deficit the government will be discouraged to borrow more during times of rising interest rates.

When a country's interest rates are rising then its citizens living and working abroad are more likely to invest their money in that country given they will receive higher returns. With greater demand for our currency, our exchange rate will appreciate and so it will make our products less competitive hence overall reducing the demand for exports.

However, the demand for imports will increase due to exchange rate appreciation as foreign products will be cheaper for us.

Tax revenue > Government spending ======= Budget Surplus

Foreign Direct Investment
Portfolio Investment (hot money) is in country's financial instruments like government bonds, saving in a bank, investing in stock exchange etc

b) Define Inflation
Define both types of inflation namely cost push and demand pull

One good solution to control demand pull inflation is higher tax rates (fiscal policy)

Another strategy to control demand pull inflation is for the government to spend less (reduce government spending)

Cost Push inflation can be controlled through supply side policies. Supply side policies are strategies used to increase a country's production potential examples training workforce to make

Sometimes the development of a project in an urban area is encouraged by a government. At other times the priority is to support rural areas.

(a) Explain what benefits might be obtained by encouraging investment in rural areas. [12]

(b) Discuss whether it might be better to conserve, rather than exploit, the resources of a country. [13]

a) A developing economy is more dependent on the agriculture sector which is present in rural areas of a country. Therefore investment in rural areas is quite crucial for economic growth.

   With better agriculture a country can export more and earn higher foreign exchange reserves. Higher incomes of farmers will allow them to afford better living standards and so can reduce rural-urban migration. Therefore lesser pressure on urban centers like congestion, pollution, crime rate.

   Rural populations will be able to access better quality education and health care which will provide more trained and productive workforce for the economy.

b) Discussion about benefits of conservation and exploitation of resources

Conservation of resources means not using resources to the extent that they start depleting and so there would come a time when an economy completely runs out of those resources.

GDP versus GNP

Gross Domestic Products includes value of all goods and services produced in a country.

Gross National Product includes income earned by a country's nationals regardless of their place of residence.

GNP = GDP - Income Earned by Foreigners in your country + Income earned by Nationals working in Foreign Countries

Income includes rent, dividends on investment in stock exchange, through employment, or profit from a business is what is recorded in GNP.