

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment.

1) (25 points) Explain the advantage and disadvantage of import substitution.

2) (20 points) The article below comes from *The Economist*. It is critical of the UN's *Millennium Development Goals*. What is one action which you feel should be taken to correct at least one problem that they cite. Explain how that action would improve the situation. The action could be one that the UN does, a developing country does, or a developed country does.

3) (20 points) The data represents the level of income for different groups in the population of a fictitious country. Use this data to plot the Lorenz Curve. Briefly explain how you found the points.

Group	1 st quintile	2 nd quintile	3 rd quintile	4 th quintile	9 th decile	10 th decile
Income	100	200	300	400	350	650

4) (15 points) Explain the problems with too large of a Gini Coefficient.

5) (20 points) Explain how a more equitable treatment of the sexes leads to development.

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ECONOMICS FOCUS

Ends without means

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The United Nations has set benchmarks for progress in poor countries. Are these any use?

THIS week the United Nations published its annual assessment of progress toward its Millennium Development Goals (MDGs)—targets established in 2000 for advancing welfare in the developing countries. The record, as you might expect, is mixed. Some things are improving, others are not. How far the MDG initiative is making a difference, one way or another, is unclear. It remains questionable, in fact, whether the MDG exercise, with its unimpeachably good intentions and its proliferating bureaucratic overhead, has done any good at all, on balance.

The targets cover eight areas, calling in most cases for specified improvements by 2015 measured from 1990: reduce the incidence of extreme poverty and hunger by half; provide universal access to primary education; promote the equality of women; reduce infant mortality by two-thirds (with a separate target for extending immunisation against measles); reduce maternal mortality by three-quarters; halt and reverse the spread of HIV/AIDS and malaria; achieve “environmental sustainability” (reverse the loss of forests, improve access to clean water and sanitation); and form a “global partnership for development”.

The first six goals, at any rate, could hardly be questioned—nor the seventh, so far as drinking water and sanitation are concerned. One might ask, perhaps, why settle for reducing extreme poverty by only half? Why not aim for a cut of 80%, or 100% for that matter? The answer is that the UN did give some thought to what might feasibly be achieved, with increased effort by poor-country governments and donors, in the stated

timescale. Fine. On the other hand, the weakness of the whole MDG concept is that it wills the ends without willing the means—something which the UN, perforce, has come to specialise in. A plan to spend an additional allocation of aid on specific interventions designed to reduce poverty, or combat AIDS, or whatever, could be judged for cost-effectiveness and ranked alongside alternative ways of expending resources on development. A statement of good intentions is unfortunately just that.

The UN seems especially proud of the progress made toward goal number eight, in which it has a vested interest—that of greater global co-operation on development. Certainly, discussion among governments about aid and development has been completely reordered by the MDG initiative. High-level conferences, working groups, declarations, strategies and programmes, all swearing allegiance to the MDG idea, are multiplying fantastically. In this sense, at least, the concept is a runaway success. However, what this is actually doing for the putative poor-country beneficiaries is harder to say. The UN observes that “many countries are in the process of retooling development programmes and strategies in line with the MDGs.” How odd. Were those governments hitherto unconcerned about poverty or AIDS? Then again, in the new assessment the UN is pleased to note that “at least 65 countries and five regions or sub-regions have issued reports geared to measuring progress on the MDGs.” Well, that's something.

Let them eat reports

For the most part, again as you would expect, progress in the substantive indicators of improvements in welfare is highly correlated with economic growth. East and South-East Asia have met or are on track to meet nearly all of the MDGs by 2015. (East Asia has seen movement in the wrong direction for just one target: the proportion without clean drinking water in towns, partly owing to rural-urban migration. South-East Asia has seen a worsening in just one area too: forests.) At the other extreme, the moribund economies of sub-Saharan Africa, taken together, have met or are on track to meet not a single target—with the exception, presumably, of the global-partnership targets for retooling programmes and issuing reports. No progress at all, or less than no progress, on poverty and hunger; on secondary-school enrolment for girls; on infant mortality or immunisation against measles; on maternal mortality; on malaria; on forests, drinking water and sanitation.

The overriding importance of economic growth suggests that aid, in itself, is no cure-all. Yet there is no question that in sub-Saharan Africa and in other very poor places, certain kinds of aid—notably those aimed at specific health interventions—are well worth undertaking. Has the MDG process at least succeeded in directing more aid to the right uses?

Not really. Aid flows increased by \$2.3 billion between 2002 and 2003, but American spending on reconstruction in Iraq is included in that total, and accounts for \$2 billion. Contributions to multilateral concessional funds fell by \$1.2 billion. Total official aid, at \$68.5 billion, stood at 0.25% of the donor countries' aggregated national incomes, up from 0.23% in 2002—but the UN's agreed aid goal is 0.7% of national income.

Additional spending on treating and preventing AIDS is recognised by the MDG initiative as a key aim, and widely acknowledged (for instance by the Copenhagen Consensus project, described in this space earlier this year) as among the most cost-effective ways to spend money in poor countries. What is the record there? Spending to halt the spread of AIDS and other diseases (notably malaria and tuberculosis) was \$4.7 billion last year, a substantial rise from \$1.7 billion in 2002. But this is still far less than ought to be spent: the UN reckons that \$12 billion will be needed next year and \$20 billion in 2006.

Meanwhile, nearly 5m people became newly infected with AIDS in 2003, more than in any previous year. In Eastern Europe and South Asia the disease is spreading more rapidly than before. In sub-Saharan Africa the pandemic continues “unabated”—partly for want of resources. As a result, MDGs or no, the region's millennium development outlook is a worsening economic catastrophe.