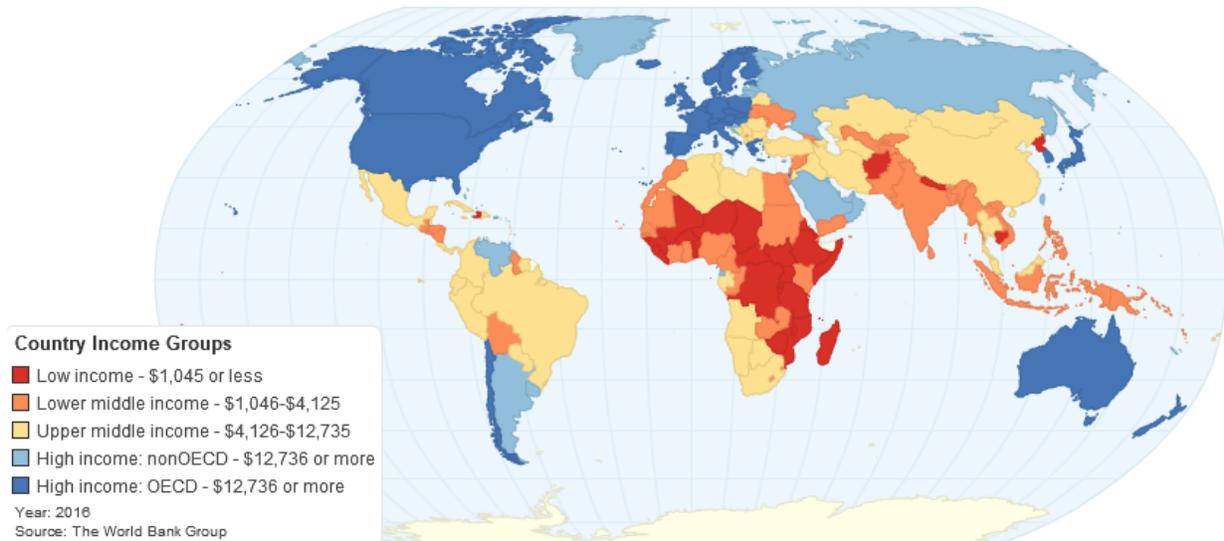


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CONCEPT: INDUSTRIALLY ADVANCED COUNTRIES AND DEVELOPING COUNTRIES

- The *World Bank* classifies countries into high-income, medium-income, and low-income countries:



- **Industrially Advanced Countries (IACs)** are the high income nations, including:
  - > United States, Japan, Canada, Australia, New Zealand, and most of Western Europe
  - > Well developed market economies, advanced technologies, and educated workers
- **Developing Countries (DVCs)** are countries not included in the IAC group
  - > Mainly located in Africa, Asia, and Latin America

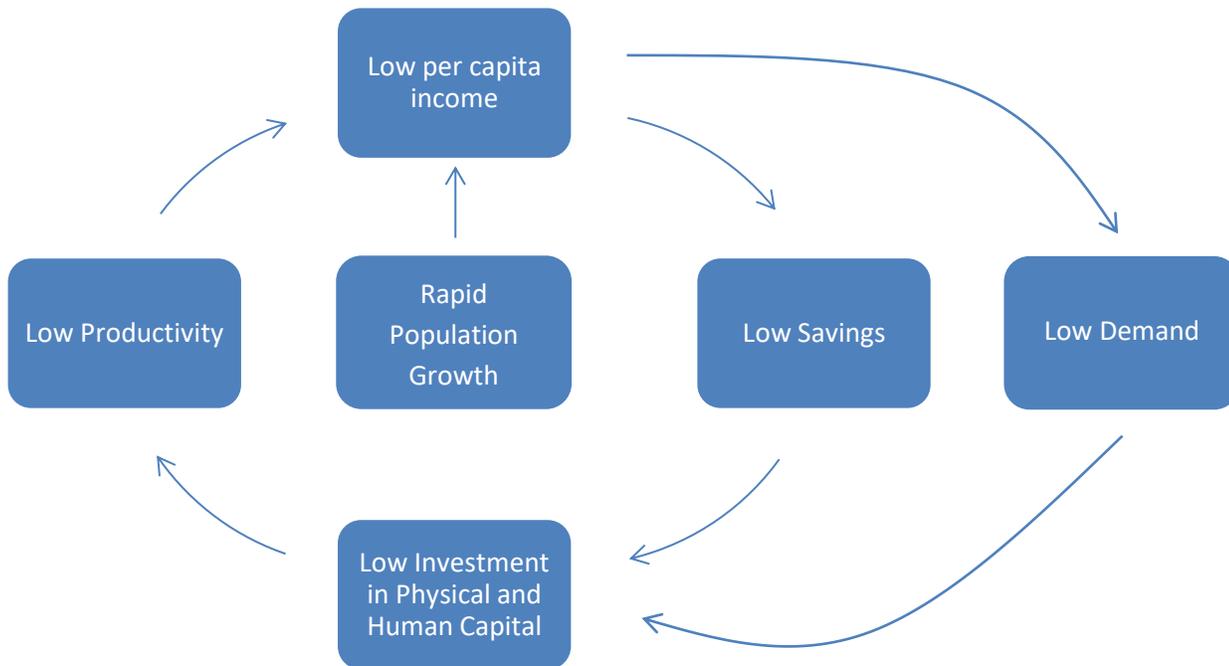
CONCEPT: DEVELOPING COUNTRIES AND OBSTACLES TO DEVELOPMENT

- Developing countries (DVCs) run into obstacles as they develop:
  - *Availability of natural resources*
    - > Many DVCs lack natural resources necessary for production and growth
    - > In some cases, natural resources in the DVC are owned by multinational corporations from IACs
  - *Human resources are not properly utilized*
    - > Populations are large, unemployment is widespread, and human capital is low
    - > The best trained and motivated workers tend to leave DVCs for better opportunities in IACs
  - *Availability of Capital Goods*
    - > Capital goods, such as factories and equipment, are in low supply leading to low labor productivity
    - > The more tools and equipment available to a worker the more productive they can be
    - > Investment in capital proves difficult because those who would invest tend to save in IACs instead
  - *Technological Advancement*
    - > Along with the availability of capital goods, technology tends to be outdated in DVCs
    - > Applying new technology also requires investments in new capital goods and infrastructure
  - *Sociocultural Factors*
    - > Tribal allegiances can take precedence over national allegiance in some DVCs, mainly in Africa
    - > Religious beliefs can limit the length of a workday or use resources for ceremonies rather than investment
  - *Institutional Factors*
    - > Political corruption is common in DVCs
    - > Public schools tend to be inadequately staffed
    - > Tax systems can be unjust or arbitrary

CONCEPT: VICIOUS CIRCLE OF POVERTY

- **Vicious Circle of Poverty** – the cycle of being poor causing you to stay poor

□ Economists tend to think that breaking out of the vicious cycle is to increase \_\_\_\_\_



- Government can play a role in ending the vicious cycle of poverty:

- *Establishing the Rule of Law*: the enforcement of clearly defined property rights reduces investment risk
- *Building Infrastructure*: Sanitary and basic medical programs, education, and transportation
- *Globalization*: Open economies tend to grow faster than closed economies
- *Controlling population growth*: Offering birth control options

- Advanced nations can play a role in ending the vicious cycle of poverty:

- *Expanding trade*: Lowering trade barriers such as tariffs and import quotas
- *Admitting temporary workers*: migrant workers send money back home to their families
  - > This can cause problems because migrants may choose to stay in the IACs
- *Foreign Aid*: Use programs to assist the growth of DVCs
  - > Includes donations of money as well as food and capital