**‘GCE A Level H2 Economics 2018 Question 2**

**Bangladesh’s quest for inclusive economic growth**

**Table 1: Bangladesh, selected economic indicators (2000-2014)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2000** | **2005** | **2010** | **2014** |
| population (millions) | 131.3 | 142.9 | 151.6 | 159.1 |
| real GDP (US $billion) | 44.2 | 57.6 | 77.3 | 98.6 |
| inflation rate  (% change in Consumer Price Index (CPI) per annum) | 2.2 | 7.0 | 8.1 | 7.0 |
| fiscal balance (government budget balance) (US $million) | -2058 | -2144 | -3214 | -5342 |
| Current account balance  (US $million) | -418 | -557 | 3724 | 1547 |
| nominal exchange rate1  (Taka per US dollar)  (The Taka (Tk) is the currency of Bangladesh) | 52.14 | 64.33 | 69.65 | 77.64 |
| Gini coefficient | 0.334 | 0.332 | 0.321 | 0.320 |

1 The nominal exchange rate is the number of units of one currency that can be exchanged for one unit of the other currency.

Source: Asian Development Bank, 2016

**Table 2: Income elasticity of demand for electricity in selected countries**

These elasticity values have been calculated by comparing Gross National Income (GNI) per person with electricity consumption per person over the period 1991 to 2010.

|  |  |
| --- | --- |
| **Country** | **Income Elasticity of Demand** |
| Australia | 0.60 |
| Japan | 0.74 |
| Bangladesh | 1.91 |

Source: Asian Development Bank, 2016

**Extract 4: The need for inclusive economic growth in Bangladesh**

In 2016 Bangladesh continued with its economic growth, recording an impressive GDP growth rate of 7.1%. Bangladesh is currently the second largest exporter of ready-made clothing in the world after China. In addition, foreign remittances continue to flow into the country in record amounts of roughly US$14 billion per year hard-working Bangladeshis residing in the Middle East and other parts of the world.

Signs of an economic boom are visible in and around the country’s cities, but especially in the capital, Dhaka, where hundreds of luxury cars and expensive new apartments overlook poor neighbourhoods and slums. A record number of Bangladeshis are now going abroad for vacations and medical treatments, and sending their children to schools overseas for higher education. Many have acquired second and third homes in countries like Malaysia, Australia, Canada, and the United Kingdom (UK), and the United States (US). In a country of 160 million people however, only about 1% makes up this privileged class. This small group almost exclusively enjoys the benefits of economic growth in Bangladesh. They are mostly business people who run family-owned businesses. These groups of companies control vast amounts of wealth and own most of the banks and other financial institutions in Bangladesh.

So what about the rest of the population? According to the latest estimates from the Asian Development Bank (ADB), around 50 million people in Bangladesh continue to live below the poverty line. This constitutes the highest proportion in South Asia. The earnings gap between workers and owners is higher than ever in Bangladesh’s business sector. It is even worse for the female labour force, who account for an estimated 45% of the working population. To make matters worse, because women face greater challenges accessing finance and information, female entrepreneurs rarely get the opportunity to compete in the male-dominated arena of trade and commerce.

The stock market, which normally provides an avenue for ordinary people to invest and participate in the larger economy, has been a shambles since the Bangladesh stock market crash in 2011 that sparked violent protests because around 3 million small investors lost all of their money. The incident broke the confidence of potential investors, including the Bangladeshi workers abroad who continue to send their hard-earned money back home. The ongoing domination of economic opportunities by the elites and lack of investment opportunity for ordinary citizens has created an unmanageable gap between the “haves” and the “have-nots,” or the super-rich and the rest.

What is needed is an inclusive growth strategy. Policies and structures need to be put in place, which give all people the opportunity to reap the benefits of economic growth. To do so, the government needs to provide a safe and supportive environment including infrastructure support (especially water, roads and energy), and create equal opportunities for all, specifically for the small- and medium-sized enterprises, to compete and participate in business opportunities.

Source: The Asia Foundation, 16 November 2016

**Extract 5: Improving access to water, roads and energy**

The government has to ensure equal access to productive assets and to infrastructure such as water, transport, and electricity, both across the country and across different socio-economic groups, since these assets create opportunities for growth and help lift people out of poverty.

In Bangladesh in 2015, only 87% of urban and rural households had access to adequate water sources. This was the lowest in South Asia.

Transport infrastructure is quite undeveloped. World Bank data indicate that only 39% of Bangladesh’s rural population lives within 2 kilometres of an all-season road – a road that can be used throughout the year by the transport normally used in the area. Only 30% of the road in Bangladesh are paved.

Transport connectivity is a key contributor to economic and social development. Improved roads and infrastructure can create opportunities for growth and poverty reduction. On the other hand, lack of access to roads prevents communities from accessing education and health services as well as hindering the transport of products.

For many years until 2010, Bangladesh had not invested in power generation, leading to a huge power shortage and power blackouts across all sectors of the economy. The demand for electricity had been rising rapidly along with growth in per capital income, increasing industrialisation, and the expansion of users in agriculture and commerce. Because electricity is an important input to production in manufacturing, agriculture, construction, and various services, inadequate supply and frequent power cuts had emerged and remained a binding constraint on productivity and the expansion of businesses.

As with other basic services, income is a significant determinant of access to electricity. The urban population is more than twice as likely to have access to electricity than the rural population, where most of the poor reside. Nationwide access to electricity was 32.6% in 2000, and had increased to 56.4% by 2010. That is still way below the 86% average for other countries in South Asia. The electricity connection fee for a household is Tk34000 (US$430), which covers the cost of a meter, installation, and a security deposit. This is equivalent to about 5 or 6 months of the average household income of a poor person in Dhaka. Due to their low and irregular incomes, the urban poor are unable to afford either the installation costs or to pay for their electricity consumption in a continuous or consistent manner.

Source: Asian Development Bank, Bangladesh Diagnostic Study, 2016

**Questions**

**(a) With reference to Table 1:**

1. State what happened to the nominal exchange rate on the Taka (Bangladesh’s currency between 2000 and 2014. [1]

1. Explain whether you would expect the change in the current account balance to lead to the change in the value of the Taka shown. [2]
2. What can be inferred from the change in the Gini coefficient for Bangladesh?

[2]

(b) Explain why a new road network in a country should **not** be classified as public good. [3]

(c) Explain **one** possible reason for the difference in values of income elasticity of demand for electricity in Bangladesh and Australia. [4]

(d) Both Bangladesh and Singapore invest in infrastructure projects. Discuss how such spending may have different impacts on aggregate demand in these two countries. [8]

(e) Discuss whether supply-side policies are the most appropriate policies to achieve inclusive economic growth in Bangladesh. [10]

[Total: 30]