Development economies are not the same as the economies of advanced capitalist nations (modern “neoclassical” economies). Nor is it similar to the economics of the centralized socialist societies (Marxist or command).

Neoclassical economics deals with an advanced capitalist world of perfect markets, automatic price adjustments, utility calculations.

Political economy is concerned with special emphasis on the role of power in economic decision making. What impact would certain decisions of the government would have upon economic development.

Development economics, to a greater extent than traditional neoclassical economics must be concerned with the economic, cultural and political requirements for effecting rapid structural and institutional transformations of entire societies.

Development addresses:
  - Poverty (GNP)
  - Unemployment
  - Inequality

“capability to function” is what really matters for status as a poor or non-poor person. Sen identifies five sources of disparity between (measured) real incomes and actual advantages:
  - Personal heterogeneities, such as those connected with disability, illness, age or gender.
  - Environment diversities such as heating and clothing requirements in the cold (pollution, infection)
  - Variation in social climate (crime, violence)
  - Social capital (telephone, shyness, car)

Three Core Values of Development

1. Sustenance: the ability to meet basic needs (wants) including food, shelter, health and protection. We do not know what need is in economics. Why? Because of the substitutes (picture of demand with ceteris paribus condition)
2. Self-Esteem: to be a person. A sense of worth and self-respect, of not being used as a tool by others (authenticity, identity, dignity, respect, honor or recognition).

3. Freedom from servitude: to be able to choose (freedom from ignorance, misery, dogmatic beliefs).

Study Case:
- Inflation makes life to be expansive
- Declining real income
- Foreign debt short/long run. Children pay it.
- Trade balance
- State-owned sector impacts incentives

Leading Issues in Economic Development
By Gerald Meier

What is Economic Development?
Attention to poverty and deprivation is in keeping with the view that people and the quality of their life is at the center of the development challenge. We need a perspective of economic development that incorporates human development. For example, we can measure human development in terms of a Human Development Index (HDI), which is based not only on real income, but also on social indicators of life expectancy, adult literacy, and years of schooling.

Look at how to calculate HDI index