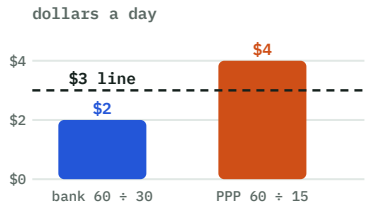
What does $3 a day mean?

The same money measured two ways (the bank's rate and purchasing power parity), the World Bank's poverty line and its count, GDP per person at PPP, and what the line leaves out: Amara on Palmera earns 60 pesos a day.

1 Market rate

what a bank gives you

- **Exchange rate** (market rate) = price of one money in another · Palmera: **30 pesos = $1** at the bank
- `dollars = pesos ÷ pesos per dollar` · Amara 60 pesos a day → 60 ÷ 30 = **$2** → below the $3 line?
- Use it when money is **swapped**: a tourist at the airport · a loan repaid in dollars · coffee paid in dollars
- Practice · the peso falls 30 → 60 per $1 · Tano's 120 pesos: $4 → **$2** at the bank · prices at home unchanged



2 PPP

what money buys

- **Purchasing power parity (PPP)** = an exchange rate chosen so the **same goods cost the same** in both places
- Rice: 1 kilo = $1 on Coralia = **15 pesos** on Palmera → 60 ÷ 15 = **$4** → above the line ✓ · rice at 20 pesos → 60 ÷ 20 = $3, on the line
- Amara buys rice, beans, cloth **with pesos**, at Palmera's prices ⇒ **PPP decides** · the World Bank's PPP prices thousands of goods
- Practice · Tano 120 ÷ 20 = **$6**, both years ⇒ a falling peso ≠ poorer · use it when we ask **what money buys**

3 Countries

GDP per person

- **GDP per person** (gross domestic product) = value of a country's yearly output ÷ its people (Macro, Lesson 1) · compare countries **at PPP**
- India 2023 (World Bank) · market rates **≈ $2,400** · PPP **≈ $9,900** → ≈ 4× · $1 in rupees (India's money) buys more there
- Practice · Palmera 36,000 pesos ÷ 30 = **$1,200** · ÷ 20 = **$1,800** · Coralia $36,000 → **30×** richer at the bank rate, **20×** at PPP ⇒ PPP shrinks the gap

4 The line

World Bank

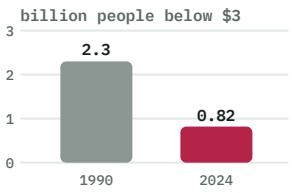
- **Poverty line** = income below which a person cannot afford the basics · in PPP dollars → same meaning everywhere
- **World Bank** = international bank, founded 1944 in Washington, lends to and studies poorer countries · draws the line
- **Extreme poverty** = below **$3.00 a day** (2021 prices = dollars that buy what $1 bought in 2021), since June 2025 · prices rise → same basket priced again
- Line in local money `= 3 × pesos that buy $1` · at 25 pesos → **75 pesos** a day · Amara's 60 → $2.40, 15 pesos short

Line	Since	Prices of
$1.90	2015	2011
$2.15	2022	2017
$3.00	**2025**	**2021**

5 The count

how many below

- 2024 (latest count) · **≈ 820 million** below $3 a day · world ≈ 8 billion → 8,000 ÷ 800 = 10 → **≈ 1 in 10**
- 1990 · **≈ 2.3 billion** → 2024 · 0.82 billion → ≈ 1.5 billion fewer · ≈ 7 in 10 of those left in **sub-Saharan Africa** (south of the Sahara)
- New line (June 2025), same year 2022 · 713 million below $2.15 → **838 million** below $3.00 ⇒ the **line** moved, not the world



6 The limits

what it leaves out

- **A cliff, not a slope** · counts **how many** are below, not **how far** · $3.50 = above, one bad harvest from below
- Practice · village A: 10 at $2.90 · village B: 5 at $1, 5 at $5 → 10 vs 5 below · lift all to $3: A 10 × $0.10 = **$1** a day, B 5 × $2 = **$10**
- **More than money** · school, health, clean water, a toilet → the Bank also reports a measure with those
- **Richer countries, higher lines** · **$4.20** a day (lower-middle income) · **$8.30** (upper-middle)
- The line says **how little** money, not **why** → next lessons: what stops Amara? (constraints, not character)

Watch out: income at the bank's rate ≠ living standard · the poor buy at **local prices** → judge by **PPP** · a falling currency does not make people poorer if prices at home stay put · a higher line raises the count without anyone getting poorer · $1.90 and $2.15 = older versions of the same line