



Using GDP Figures
National Income Accounting

Using GDP Figures

- GDP figures are used to make comparisons among countries and to measure economic welfare over time.

Comparing GDP Among Countries

- GDP gives a measure of economic size and power.
- **Per capita GDP** is another measure often used to compare nations' GDP.

Comparing GDP Among Countries

- Because of differences in nonmarket activities, per capita GDP can be a poor measure of the various living standards in various nations.

Comparing GDP Among Countries

- Purchasing power parity is used to get around the problems of per capita GDP.
- **Purchase power parity** adjusts for different relative prices among nations before making comparisons.

Economic Welfare Over Time

- Just because GDP rose does not mean welfare rose – it could be only prices rose.
- Comparing output over time is best done with real output which is nominal output adjusted for inflation.

Real and Nominal GDP

- **Nominal GDP** is GDP calculated at existing prices.
- **Real GDP** is nominal GDP adjusted for inflation.

Real and Nominal GDP

- Real GDP is important to society because it measures what is really produced.

Real and Nominal GDP

- Real GDP is arrived at by dividing nominal GDP by the GDP deflator.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP deflator}}$$

Some Limitations of National Income Accounting

- Limitations of national income accounting include the following:
 - Measurement problems exist.
 - GDP measures economic activity, not welfare.
 - Subcategories are often interdependent.

GDP Measures Market Activity, Not Welfare

- GDP does not measure happiness, nor does it measure economic welfare.
- Welfare is a complicated idea, very difficult to measure.

Measurement Errors

- GDP figures leave out the following:
 - Illegal drug sales.
 - Under-the-counter sales of goods to avoid income and sales taxes.
 - Work performed and paid for in cash.
 - Unreported sales.
 - Prostitution, loan sharking, extortion, and other illegal activities.

Measurement Errors

- A second type of measurement error occurs in adjusting GDP for inflation.
 - If the price and the quality of a product go up together, has the price really gone up?
 - Is it possible to measure the value of quality increases?

Misinterpretation of Subcategories

- The subcategories of GDP can be misinterpreted.
 - For example, the line between investment and consumption is often fuzzy.

Gross Progress Indicator

- The gross progress indicator (GPI) is an alternative measure to GDP.
- The GPI tries to measure pollution, education, health concerns, as well as GDP.

Conclusion

- Measurement is necessary.
- GDP measurement categories have made it possible to think and talk about the aggregate economy.
