

How would an economist go about comparing the standards of living in the UK, the Russian Federation and Bangladesh? [12 marks]

- Using GDP
 - Why does this demonstrate the standard of living?
- GNP
 - What is it?
 - Why is it best for international comparison?
- 'Real' GNP
 - What is it, and why is it more useful?
- GNP per capita (per head)
 - Why is this more useful to compare countries?
- Convert to a common currency
 - Market exchange rates are not stable and fluctuate on a daily basis, unlike standard of living which changes more gradually over a period of time
 - Measured using PPP – 'Purchasing power parity rate'
 - What is this, and why is it more accurate

Discuss the problems an economist would face in making this comparison using GNP figures alone. [13 marks]

- Different countries collect data in different ways
- Countries include different data in their GNP. For example, in Japan the activities of the mafia are recorded, whereas in the UK this is part of the 'hidden economy.'
- In remote rural areas collecting data can be costly and hard to obtain accurate figures for. Estimates are often used, which may not be accurate. This will be more of a problem in Bangladesh and in Russia than in the UK.
- Countries deal with statistical errors in different ways. Some countries will estimate the figure, whilst others will discard the data.
- Unrecorded activities within the economy can make some individuals better off than the recorded GNP per head. An example of this is drug trade. This might make you richer, but not necessarily happier, and so not necessarily increase your standard of living. Different countries define the hidden economy differently (as already mentioned Japan includes the mafia, but the UK does not). This hidden economy accounts for ~7% of UK GDP.
- Home produced goods and services improve the standard of living for individuals but do not count towards GDP. They are tasks that another individual could have provided as a good or service, baking, cleaning and growing your own food. Had these been performed by someone else The GDP would have increased, so the GNP would have increased meaning that the GNP per capita would also have increased. Therefore particularly in Bangladesh GNP per capita may underestimate the standard of living.
- This is due to extended families, a relative may work for free and only charge the costs of materials. Here trade is less organised so it is harder to monitor. The UK has the longest working hour economy in Europe so this is less of an issue in the UK as we have many goods imported. We are 'cash rich' and 'time poor' whereas people in countries like Bangladesh are 'time rich' and 'cash poor.'
- Income distribution not accounted for in GNP per capita. Does not tell you how the average person is living as wealth is not evenly distributed.
- To compare similar data often requires comparing data from different periods as data is collected and published at different times.
- High GNP per capita does not imply a good standard of living. The goods and services being produced could be capital goods, military goods for example like in the USSR

- pre-1989 in the cold war period. If few consumer goods are being produced the standard of living is not increased.
- High GNP now due to investment in capital goods will probably lead large growth later. This was true of Japan in the 1950's, and in the 1960's there was large growth as more goods and services were available.
 - Government investment may be more inefficient than private investment, so lead to a lower GNP but provide vital services to all, so increasing the standard of living. In the UK examples include the health service and education.
 - In Bangladesh in many families only men are educated, which can lead to only a single worker in the family. This decreases GDP, and leads to more home produced goods, but also a parent at home which may increase the standard of living.
 - In the UK many 2 parent working families exist. This means more goods and services are produced yet can lead to stress and a decrease in the standard of living.
 - In Japan 95% of the country live in a cramped urban environment. More goods and services doesn't necessarily make people happier.
 - Human development index (<http://www.undp.org/hdr2003/>)
 - This is an evolving system so you cannot use results from different sources from different years to compare standards of living.
 - Measures standard of living using three ways to measure three parts of life:
 - Healthy living – measured by life expectancy at birth
 - Knowledge – measured by adult literacy rate and the proportional take-up of primary, secondary and tertiary education.
 - Standard of living – measured using GNP per capita, in US\$.
 - So, if GDP is so inefficient why do we use it?
 - Lots of contributing +ve and -ve factors cancel
 - Data collected for other purposes so readily available
 - Cost of collecting more specific data and how useful the data would actually be

See Alain Anderton's 'Economics for AS Level' (ISBN: 1873929374) page 162/163 for useful figures.