

Explain why gdp is not a perfect measure of economic well being of a nation.

[Economics](#)



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Explain why GDP is not a perfect measure of economic well being of a nation. By definition the GDP (Gross Domestic Product) is a measure of the income and expenditures of an economy. Also, it can be defined as the total market value of all final goods and services produced within a country in a given period of time. Base on GDP definition and base on many economist points of view regarding to the definition of well being. I understand that GDP is not a perfect measure of economic well being of a nation for many reasons: 1. The gross domestic product (GDP) is not a sufficient measure because it fails to capture important ingredients of prosperity, such as health, personal freedom, and security. 2. GDP excludes the value of leisure: Leisure is an economic good. All other things being equal, more leisure is better than less leisure. But all other things are not likely to be equal when it comes to consuming leisure. Consuming more leisure means supplying less work effort. And that means producing less GDP. If everyone decided to work 10% fewer hours, GDP would fall. But that would not mean that people were worse off. In fact, their choice of more leisure would suggest they prefer the extra leisure to the goods and services they give up by consuming it. Consequently, a reduction in GDP would be accompanied by an increase in satisfaction, not a reduction. 3. GDP excludes the value of non-market activities, even though these activities are productive and important. Examples: child-rearing, volunteer work. 4. GDP excludes the quality of the environment: without regulations, firms might be able to produce more (which raises GDP) while worsening the environment. For example, companies might produce an additional \$200 billion in goods and services but create pollution that makes us feel worse off by, say, \$300 billion. The

GDP accounts simply report the \$200 billion in increased production. Indeed, some of the environmental degradation might itself boost GDP. Dirtier air may force us to wash clothes more often, to paint buildings more often, and to see the doctor more often, all of which will tend to increase GDP. 5. GDP does not indicate transactions occurring outside the market called underground economy. For example, a carpenter might build a small addition to a dentist's house in exchange for orthodontic work for the carpenter's children. Although income has been earned and output generated in this example of bartering, the transaction is unlikely to be reported for income tax or other purposes and thus is not counted in GDP. Illegal activities are not reported for income taxes for obvious reasons and are thus difficult to include in GDP. In conclusion, G. D. P. does not take into account some of the negative effects of economic growth, like pollution. It does not factor in leisure time, or parts of the "informal economy": like parents' unpaid care for their own children that have value but not necessarily measurable, marketable value. It does not give any sense of how equitably distributed a country's wealth is; a country could theoretically have both the world's highest G. D. P. and the world's highest poverty rate simultaneously. It also does not reflect quality of life or happiness in any given country. Robert Kennedy articulated this concern in a speech in 1968 when he lamented that GDP "measures everything . except that which makes life worthwhile. " Resources: 1. by Libby Rittenberg and Timothy Tregarthen (2009). Principles of Macroeconomics, 1st edition. 2. Jack A Chambless (2005). An Applied Approach to Macroeconomics, 2/e 3. Catherine, Rampell. (2008). Alternatives to the G. D. P. The New York Times:

Business. 4. Roger Bate. (2009). What Is Prosperity and How Do We Measure It? AEI Outlook series .