Problems in gdp comparison across countries

[Business](#)

Introduction In economic terms, GDP is a tool which to calculate a country's overall yearly economic growth.

Various indicators are included to calculate the exact growth rate during a year. This system is used in all countries around the world. Basically, GDP involves many indicators that help e3conomists to calculate the overall growth rate. (Chelsea, 2011, 584) However, there can be issues that are needed to be addressed before the final GDP is calculated. Impact of Exchange Rate Fluctuation Rapid fluctuation in exchange rate causes certain issue such as difficlty to take standard figures to calculate a definite GDP value. Two factors are involved, which cause a calculation disparity, the dominance of a currency over another and a price disparity between non tradable items (Beatty, 2011, 279).

Purchasing Power Parity Purchasing Power Parity or PPP can be a useful tool to cope up with the above mentioned hurdle because this tool is used to overcome the drastic value margin between two currencies. Such measures can be calculation the price of that item in both currencies so that the price can be standardized whereas deal goes through. For country GDP calculation and comparison with other countries, this technique has worrked well and is implemented commonly because of its flexibility and accuracy (Aaron, 2011, 167, 74). GDP & Wealth DistributionDespite a common acceptance that GDP includes many factors that contribute national GDP, it leaves many uncounted. An example is a person who grows his major part of food consumption by himself.

Charity and several other things are not accounted for in GDP calculation (Harrow, 2011, 338). Other factors include the income disparity and life standard of people, which is not exactly as high as the GDP calculation indicates. In other words, it is not the most precise method of calculating and comparing national incomes of countries.