

As an economist how  
would you compare  
living standards in the  
uk

[Economics](#)



Living standards can be measured and therefore compared using many different facts and figures. However living standards are qualitative and therefore very difficult to measure. The most common method of measuring the living standards between UK and Iraq would be to use Gross Domestic Product (GDP) figures. GDP is a measure of a country's national income, output or expenditure at current prices. Nominal GDP is calculated without taking reference to inflation whereas Real GDP does take inflation into account, thus Real GDP is a better measure to use when comparing living standards.

A lot of factors affect the standard of living a country and affect how that is measured. For instance the populations for both UK and Iraq differ, this would have to be taken into account when comparing both countries. If it wasn't then the comparison wouldn't be fair, as if both countries had the same level of Real GDP however Iraq had half the population of the UK then the people of Iraq would have twice the wealth of the British, which simply in many peoples opinions would mean the Iraqis enjoy a higher standard of living than the British. As an economist I would therefore use GDP per capita (per head).

As well as using GDP, as an economist I would be forced to take other qualitative data into account, to compare living standards between the countries. Data such as the adult literacy rate in each country, the infant mortality rate, life expectancy, distribution of income and do on. These data are shown in the form of the Physical Quality of Life Index (PQLI) and the Human Development Index (HDI). These both however do not take into

account Real GDP per capita in each country, so I would have to use a combination of both pieces of data to compare living standards.

There are also other indicators of standard of life that as an economist I would also take into account. I would look at the amount of externalities both countries produce, the working hours and leisure time people of each country experience. The legislation in both countries, the right to vote and political freedoms the British or Iraqis enjoy or don't. Crime rates, health and safety at work, number of televisions and radios per household and similar information would also need to be taken into account.

Although it would be extremely difficult to compare living standards between both UK and Iraq. For the most accurate conclusion I would try my best to use a combination all the data mentioned above to compare the standard of living. However Real GDP per capita is still the most important indicator I believe we have and that would be the most influential piece of data available. What problem would you have in carrying out the task and how would you overcome them? Comparing national income statistics between economies is difficult and very time consuming.

There are many problems as many factors play their part. Income distributions are rather different in the UK in comparison to Iraq. Populations also differ and thus it is important to compare per capita income figures. National income figures will have varying degrees of accuracy, caused, for instance, people trying to evade taxes and under declaring their incomes or not declaring them at all. The sizes of the hidden economies in each country vary. In the UK it is believed to be between 7-15% of GDP.

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Real GDP figures are also calculated from millions of returns to the government, therefore mistakes inevitably occur and this distorting the statistics. In countries like Iraq the GDP figures which available are hardly accurate, no matter how they have been calculated. Adding to the difficulty of comparing living standards. Also in third world countries like Iraq GDP per capita is minute. For many people it would be impossible to survive on the income they are believed to receive. However a large part of the agricultural industry is not traded, or is not exchanged for money but for other goods.

The GDP statistics fail to record home produced goods, altering the true value of living in Iraq. There is also the problem of what rate of exchange to use when comparing one Britain's national income with Iraq. The day-to-day market exchange rate can bear little relation to relative prices in the different countries. So if national income statistics are to be used to compare living standards between the countries it is important to use an exchange rate that compares the cost of living in each country. These exchange rates are known as Purchasing Power Parities.

However even this is not accurate enough. In Iraq consumers have to purchase goods, which in Britain are free, goods such as healthcare and so on. This extra expenditure does not give that country a higher standard of living. Iraq and Britain are also different geographically, which also have effects. For instance Britain has higher transport costs per unit of output than Iraq due to congestion and having to transport goods long distances. In practice it is almost impossible to adjust national income figures for these sorts of differences.

Distribution of income is an important factor of standard of living. However it is hard to include in the measuring of an economy's standard of living. Using tax forms details to construct data tables, which can be shown by the Lorenz curve, can solve this problem. The Lorenz curve compares the percentage of income against the percentage of population. Iraq also has many great natural resources, which should be taken into account. Such as resources of oil. The oil industry in Iraq provides a large proportion of national income.

Thus the top 5-10% of the population earns the majority of the national income, which means the rest of the country are fairly poor. Even though UK's distribution of income is more even, due to taxes etc. The top earners in the UK are still earning a large share of national income. No measure of living standards in an economy is perfect, as they all have their problems. The best way of comparing living standards between UK and Iraq is to use all the data and more to give the most accurate and fair comparison.