

# [Gdp does not perfectly measure well-being of a nation and its citizens' welfare](https://assignbuster.com/gdp-does-not-perfectly-measure-well-being-of-a-nation-and-its-citizens-welfare/)

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Gross domestic product Affiliation Introduction Gross domestic product refers to what the entire market value in terms of all final services and goods generated within the country in a given year. Its components include personal consumption expenditures, government expenditure and business investment. It is the commonly used method that measures the economy output hence it is termed as a measure of the magnitude of the economy. When individual say one economy is larger, compared to another, an economy is shrinking, or growing, they normally refer to GDP figures (Saylor, 2012). GDP is, therefore, the best way to measure country’s economy since it includes everything generated by companies and people in the country.
There are two main types of GDP; Real GDP and Nominal and real. Nominal GDP is the raw measurement that leaves price increasing in the estimate. Real GDP compares GDP from one year to another taking out the inflation. To calculate the real GDP, exchange rates and trade policies are not, inflation effects are taken out, and only the final product is counted.
GDP is measures all consumptions by households, all purchases by the government, all business investments and foreigners purchases. Therefore, GDP is equal to the total investment, consumer and government spending, plus the value of exports; takeaway the value of imports (C+I+G+(X-M)). For example, the cars the auto dealers’ sells, individual’s health insurance premiums and the money one pays to a day care centre are all included to GDP.
Bureau of Economic analysis releases GDP data on a quarterly basis applying data from the Bureau of Labor Statistics and Census Bureau. GDP is quarter-by-quarter, but new estimate are given out every month. Adding all economic output in the state is more difficult, hence, BEA normally releases on regular basis revisions of its own GDP estimates as correct information becomes accessible with time. The new accounts focus on the growth rate, rather than the level of GDP.
GDP is consequential because it provides a bird’s-eye view of how economy is developing. An increase of GDP is a sign of good things happening in different areas like people getting better pay or more job and business feeling confident in investing.
GDP is not an accurate indicator of national well-being. There is always a tendency for a country with rising GDP also to feature people earning good wages, getting jobs and increasing disposable income. Similarly, a shrinking economy is often an indication that something is wrong. GDP does not measure many aspects of the entire country (Saylor, 2012). A country can have environmental problems like pollution despite its growing economy. GDP also does not tell about family structure, health, crime rate or happiness. For example, a spike in the divorce rate may lead to a small decrease in GDP as individuals need to furnish new apartments. Economically established Nations have the tendency to post good progress in the health sector as an indicator.
Economic welfare cannot be well-estimated o measured unless the personal distribution of income is captured. There is no income measurement that undertakes to estimate the reverse side of income. The unpleasantness and intensity of effort going into the earning of income. The welfare of the country can scarcely be deduced from the measurement of national income.
Conclusion
From the discussion above, Even though GDP is a common way of measuring the national income, it is not the best accurate means to measure the national income.
References
Saylor J. (2012). Principles of Macroeconomics. retrieved from http://www. saylor. org/courses/econ102 . Date of access 7 October 2014