

The concept of gross domestic product

Economics



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Introduction

Gross domestic product (GDP) refers to the market value of all goods and services produced within a country in a given length of time. It is usually used to indicate countries standard of living. Simon Kuznets an American economic researcher, who has pointed out that there is more to life than money, has been focusing on “gross national happiness” another way of indicating countries standard of living. But this time it is by measuring the change in our standard of living and by our quality of life instead of how much money we pocketed in a given period of time. The concept of gross national happiness or (GNH) was developed in an attempt to define an indicator that measures quality life or social progress in more holistic and psychological terms than gross domestic product. This idea has been followed from the upper echelons of Barack Obama to the prime minister of United Kingdom David Cameron the goal of measuring nations well being has been a major goal of this policy makers. They join the trend setter the Kingdom of Bhutan a Himalayan mountain country located in south Asia between republic of India and people republic of China.

Gross domestic income (G. D. P)

Product or output approach, income approach and expenditure approach have been used to determine GDP. Because of summing up the output of every product enterprise to come to the total the product approach has been the most direct of the three approaches. On the other hand the income approach principle says income of producers must be equal to the value of their product and it determines gross domestic income by finding the sum of

all producers' income. Expenditure approach uses a principle that all of the product must be bought by somebody, therefore the value of the total product must be equal to peoples' expenditure in buying things.

GNH(growth national happiness)

GNH (gross national happiness) was introduced to measure quality of life in a nation. The term was initiated in 1972 by Bhutan's former king jigme singyewangchuch, who lead Bhutan into modernization. but under the leadership of karma Ura , it developed a sophisticated survey instrument . This survey instrument measures the general wellbeing of the Bhutan nation. The instrument was invented with collaboration with the Canadian health epidemiologist Michael pennoke. like many psychological and social indicators, GNH is somewhat easier to state than to define with mathematical precision.(WIKI

DIFFERENCE

The difference between the two is, G. D. P is based on how the country is pocketing money and how each year they are growing or going down financial wise . but gross national happiness indicate or measure national well being, by measuring this they will know how happy the nation is. Measuring national happiness is used to help the government understand “ with evidence “ the best way of improving peoples well being (David Cameron). By measuring how happy the nation is . But on the other hand G. D. P measure countries economical performance.

G. D. P measures quantitative measures not qualitative like G. N. H. G. D. P takes no account of the distribution of income and includes no moral judgments about the worth of the activity performed

Money is the most common medium of exchange in the modern world . modern nation compares their wealth with the amount of money they accumulate. Money can buy you just about anything in this modern age. Many big nations like the United Kingdom and the United States of America measure their economic wealth by G. D. P or gross domestic product. But this countries are realising there is more to life than money, they are considering measuring national wellbeing or gross national happiness (G. N. H) to measure how happy there nation is, the first nation that measured G. N. H is the country of Bhutan.

Bhutan's does not idolise money as the rest of the world does. They do not have as many material possessions as the people of the united Kingdome or of the United States. There for money does not have a major usage. Its seems like people in the united Kingdome tend to need money to be happy in life,(give good example from the hand out?)The people of Bhutan do not need money or wealth to be happy.

Families in the western society are stragglng to feed and maintain necessity needs in the house. Parents have to be working full time to pay forfood, gas, internet, electricity, transport . it can be any kind of transport it can be a car, for example when owning a car there are cost that comes with it like paying for road tax insurance and petrol. it can also be a train, there is cost that comes with it like paying monthly or weekly or daily travel card but in the

country of Bhutan the means of transport is, use mule back or horse back to move from place to place which is cost less. Some of these expenses are not necessity in the country of Bhutan like the internet. There life is not based on technology they don't need the internet to live there life but on the other hand UK families need internet to lead there day to day life , the kids at home needs internet to do there course work the the father and mother needs it to pay bills and for work purpose . This had mounted the expense of the UK and most western families expenses.” the more money you got the more expense u will have “ the stress level in western world is highly elevated , as opposed to the stress level of families of Bhutan.

Bhutanese families spend time together as they usually work together in their farm or at home. There life style tends to be togetherness. Therefore giving Bhutanese a good quality time with their family. Which also avoid loneliness or spending time worrying . Bhutan's work as a family which means they chain of delegation is from a family member Which makes their jobs easier, they don't have a boss ordering them or giving them dead line to finish a task or a work time keeper who checks time when they come late to work them gives them a final warning. This in itself can avoid work related stress . stress at work is a major issue in the united kingdom according to the BBC news, stress at work makes men ill. ”

Bhutanese people have much less money than Britons but they seem to be happier because they don't have any use for money. The trade in Bhutan deals with animals or foods, or handcrafted articles of clothing or weaponry . In the UK everything or every transaction requires the use of money in one way or the other . G. D. P is very important in a country like the united
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Kingdom . because economies change very rapidly from positive to negative and vice versa . but the economies of country like Bhutan is so small. There for makes G. D. P measurement harder. Growth national happiness in Bhutan seems to work for them than growth domestic product. Because people don't use money; they have more opportunity to be happy with what they owned .

PROBLEMS OF MESURING G. D. P

DOUBLECOUNTING There are lots of problems in measuring G. D. P, one of the problems in measuring G. D. P is errors and omission, and this is a problem in calculating and collecting the statistics of nation. This problem arises because people hide their incomes and firms hide their expenditure to avoid taxation. as a result of this there will be another economical nation called the black economy in one country, (Akemed 2001) also suggest that it is known as “ rag gun”. Another way in which double counting can occur is through stock appreciation. The increase in inflation which will also increase the stock value, even though this adds firms a profit; it represents no increase in real income . gain such as this must be deducted from the income figure.

G. D. P DOESNOT TAKE INTO ACCOUNT OF INCOME DISTRIBUTION

By trying to avoid distribution of income, G. D. P hides the fact that rising tide dos note lift all boats. from the early ninety seventieth till mid ninetieth G. D. P rose by staggering 50% were by wages suffered a massive fall of 14 % , in the start of ninety eighty one alone the upper 5% of households

increased their real income by almost 20% yet the G. D. P present this massive gain at the top as a bounty to all. In 2006 Richard Layard an economist from LSE argued unhappiness is a bigger problem than unemployment in the United Kingdom. This shows people are more concerned about their happiness and well being than there income. There for measuring peoples income is useless, because people are not concerned about what they get paid they are more concerned about their happiness and well being . more people are claiming incapacity benefits because ofdepressionand other mental disorder. So policy makers need to take into accounts such factors, And change the way we calculate the countries growth.(THE ECONOMIST NOVEMBER 27Th 2010 edition page 86).

G. D. P measures divorce, crime, and natural disaster as economical gain

As G. D. P records every monetary transaction as a positive one the cost of social problem in natural disaster are classified as economical advance.

Divorceadds billion pounds through legal expenses, crime ads billions to the UK GDP due the need for security measures increasing police protection and medical cost. Hurricane Andrew was disastrous for southern Florida, but GDP has recorded it as a boom to the US economy pocketing well over 15billion dollars. (Clifford W. Cobb and John B. Cobb, Jr. 1994: 12)

GDP INCREASES WITH POLLUTING ACTIVITIES

Highly funded cleanup of toxic sites is slated to cost billions of pounds over the next three years. This will also increase up the GDP, the growth domestic product first added the economic activity or economic boom in industries and manufacturing to generate thepollution. It creates illusion that pollution

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is double economical benefits. This is how Exxon Valdez oil spill led to the increase of GDP.

This shows that GDP measures quantitatively, it includes no moral judgment about the activity performed to increase the economy. More to this the clean up on nuclear accident like of the Fukushima in Japan will add to GDP in the same way of production of solar power. When oil is found in one country it is sold to the consumers it is counted as an additional to the country's wealth rather than loose or depletion of the country's resource.

PROBLEMS OF MESURING G. N. H

On the other hand growth national happiness also has its down falls, GNH is rather complementary than a real substitute of G. D. P. Our businessenvironmentneeds highly tangible indices like G. D. P in order to assess its market. As Mr. Cameron said it “ you cannot capture happiness on a spreadsheet any more than you can bottle it”. Critics say that international comparison of well-being will be difficult on this model; proponents maintain that each country can define its own measure of GNH as it chooses, and that comparisons over time between nations will have validity . Recently there has been concern that happiness research could be used to advance authoritarian aims. Some participants at a happiness conference in Rome have suggested that happiness research should not be used as a matter of public policy but rather used to inform individuals. In the case of Bhutan (BBC news 2003) shows that the government expelled about one hundred thousand people and stripped them of their Bhutanese citizenship on the grounds that the deportees were ethnic Nepalese who had settled in the

country illegally. While this would reduce Bhutan's wealth by most traditional measures such as GDP, the Bhutan government claims it has not reduced Bhutan's GNH. Growth national happiness is hard to measure and it has its own conciseness. Because happiness is not definable it's hard to put on a spread sheet, unless everyone is brain scanned. So it requires lots of time and money.

Major problems with measuring happiness are that, it is composed of other elements to. In crude mathematics it will be defined as $H = R - E$. In short it means the lower people's expectations are the happier they are, on the other hand the higher people's expectations are the less happy they are.

Most people think happiness is not measurable, it's too abstract, too subjective, too hard to quantify by asking people how satisfied they are with their life on a scale of one to ten, on doing so this will not give accurate answer for measuring happiness.

The other alternative is to focus in particular set of events and ask what feeling do people show as the day goes on or "day reconstruction method or DRM" which is produced by researchers including Norbert Schwarz a physiologist and the economist Alan Krueger ex chief economist of the US treasury and another noble prize winner physiologist Daniel Kahneman.

' The alternative approach to measure happiness by recalling episode by episode of previous day event and the most highlighted part of feeling like stress, peace, exhaustion elation. In short this approach measures mood and life satisfaction and these two concepts are quite different ways to think about happiness. ' a survey measuring women in America in France
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found that the Americans were twice likely to say they were very satisfied and happy with their lives but on the other hand the French women spent more of their day in a good mood. “ We have tended for too long to use a single word to refer to wide variety of things” says professor Kahneman. There is a real need to distinguish between life satisfaction and mood or experienced happiness. They are quite distinct and they have different causes and consequences. So this has led happiness hard to measure because of all consequences that come with it therefore GNH can be a problem to measure success of a country because of the low accuracy level. A country cannot measure its success on inaccurate results.

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