

# [Gross domestic product gdp](https://assignbuster.com/gross-domestic-product-gdp/)

[Economics](https://assignbuster.com/essay-subjects/economics/)

The Gross Domestic Product (GDP) of a country is commonly defined as the total market value of all final goods and services produced in a country in a given year. The fact that it is measured regularly and quite consistently in practically all countries of the world allows a direct comparison of the standard of living in individual countries. The frequent measuring also makes it possible to quickly recognize changing trends. For example, it is used to determine whether an economy is growing faster or slower than in the previously measured period and to compare it with other economies in the world.

When GDP is calculated in relation to the population of a country, one speaks of the average GDP per capita. This is often used as an indicator of a country’s standard of living. However, as a measure of the standard of living in a country, GDP has its limitations and shortcomings. ? It does not differentiate between economic output that actually benefits the population and economic bads in a country, such as, for example, expenses for warfare, pollution-producing industries, etc. It does not include unreported activities such as illegal trading or black-market labour. ? It does not reflect non-market activities such as unpaid housework, childcare, and care for the elderly at home, community services or similar activities.

The distribution of wealth within a country can be very uneven. When there is a high concentration of enormous wealth in a very small group, and the vast majority of a population is very poor, the average income may be relatively high, although the standard of living of the majority population is low. GDP can only measure the material standard of living, without taking into account the quality of life as perceived by each individual, which cannot be standardized across a population or countries. ? Economic output can increase due to technological advances requiring less employment, thereby decreasing the employment ratio. ? The age distribution within a country may be such that a relatively small group of working-age people have to support a large group of old people, resulting in a lower employment rate and consequently a lower standard of living.