Grade 8

Economics

Living Standards

1) **What is nominal GDP?**

Nominal GDP measures income at current prices with no adjustment for the effects of inflation e.g. if nominal income is £40,000 in 2012 and rises by 5% in the next year, then nominal income will rise to £42,000.

2) **What is real GDP?**

Real GDP measures the volume of output. Real GDP removes the effects of inflation or price increases. An increase in real output means that AD has risen faster than the rate of inflation and therefore the economy is experiencing positive growth. e.g. if nominal income is £40,000 in 2012 and rises by 5% in the next year, then nominal income will rise to £42,000 and if in 2012 price level rose by 5% too than real income will be £ 40,000 as any rise is overset by rate of inflation.

3) **What are living standards and quality of life?**

A standard of living is the level of wealth, comfort, material goods, and necessities available to a certain socioeconomic class or a certain geographic area. Quality of life, on the other hand, is a subjective term that can measure happiness.

4) **What is the difference between standard of living and quality of life?**

The standard of living is a measure of the material aspects of an economy. It counts the amount of goods and services produced and available for purchase by a person, family, group, or nation.

The standard of living is different from the quality of life. It doesn't measure non-material characteristics, such as relationships, freedom, and satisfaction. These are part of the quality of life.

5) **What is GDP per capita?**

The generally accepted measure of the standard of living is GDP per capita.

This is a nation's gross domestic product divided by its population. The GDP is the total output of goods and services produced in a year by everyone within the country's borders. Or it is GDP per person. It is a country's output that accounts for number of people. It is calculated as:

$$\text{Per Capita GDP} = \frac{GDP}{Population}$$

Real GDP is a better measure of the standard of living than nominal GDP. A country that produces a lot will be able to pay higher wages. That means its residents can afford to buy more of its plentiful production.

6) What are the drawbacks of using GDP per capita?

- First, it doesn't count unpaid work. That includes critical components like in-home child or elder care, volunteer activities, and housework. Many activities that are included in GDP couldn't occur if there weren't these support activities.

- Second, it doesn't measure pollution, safety, and health. The government may encourage an industry that spews chemicals as part of its manufacturing process. The elected officials only see the jobs created. The cost may not come to roost until decades later.

- Third, the GDP per capita measurement assumes that production, and its rewards, are divided equally among everyone. It ignores income inequality. It can report a high standard of living for a country where only a few enjoy it.