

Exercise walk-through

4.1

National income statistics

A-Level Economics

What we will cover

- 1 National income
- 2 The circular flow
- 3 Aggregate demand & supply
- 4 Growth & the business cycle
- 5 Unemployment
- 6 Inflation



output of the whole economy

Gross to net: allow for capital used up

Capital depreciation is consumption of fixed capital through wear and obsolescence. **Net national income** (NNI) deducts it from GNI.

Continue the same annual accounts; £ billion

GNI is 780 and consumption of fixed capital is 60. Find NNI. Does this adjustment remove inflation?

$$\text{NNI} = \text{GNI} - \text{capital depreciation}$$

$$\text{NNI} = 780 - 60 = 720 \text{ (£ billion/year)}$$

No: gross/net is a capital-use adjustment. Nominal/real is a price adjustment. Keep the period and price basis consistent before subtracting.

Equal averages can hide different living conditions

Two illustrative economies, same year and comparable prices

Each has real GDP per person of £20,000. In A, the poorest fifth receives 10% of income; in B, it receives 3%. B also has longer working hours and more air pollution. Can the average alone rank living standards?

National income statistics help measure output and resources for services. They are not a complete **standard of living** measure.

Check **distribution**, leisure, health, environmental damage and access to services. Most unpaid household services are outside GDP; paid versions can count.

Production in the **informal economy** is included in principle within the GDP production boundary, but difficult to measure fully. “Untaxed” does not mean “excluded by definition”.

Exercises 2.1-2.3

2.1 Define the term *gross domestic product (GDP)*.

[2]

2.2 State the difference between *nominal* and *real* GDP.

[2]

2.3 State one limitation of using GDP per capita to measure living standards.

[1]

Exercises 2.1-2.3

2.1 Define the term *gross domestic product (GDP)*. [2]

2.1

- the total value of all goods and services produced inside a country in a year (2 for a clear definition; 1 for a partial idea)
-

2.2 State the difference between *nominal* and *real* GDP. [2]

2.2

- nominal GDP is measured at current prices; real GDP is adjusted to remove the effect of inflation, showing the true change in output (2 for a clear difference; 1 for a partial idea)
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2.3 State one limitation of using GDP per capita to measure living standards. [1]

2.3

- any one of: ignores income distribution; omits unpaid/informal work; ignores pollution, leisure and health (1)

Exercises 3.1-3.2

3.1 To compare living standards over time, the best measure is:

[1]

☐

A nominal GDP

B real GDP per capita

C total nominal GNI

D the size of the population

3.2 Explain why real GDP per capita is more useful than nominal GDP for comparing living standards over time.

[6]

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3.1 B

- Real GDP per capita removes inflation and population effects

3.2 Explain why real GDP per capita is more useful than nominal GDP for comparing living standards over time.

[6]

3.2

- [6] AO1 1 + AO3 up to 5 – nominal GDP can rise just because prices rose, not output, so it overstates growth; dividing real GDP by population shows the true output available per person
- a fairer comparison of living standards over time

Exercise 3.3

3.3 Discuss whether GDP per capita is a good measure of a country's standard of living. [12]

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3.3

- [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** higher real GDP per capita usually means more goods, services and tax revenue per person. **Against:** it ignores distribution, the informal economy, pollution, leisure and health, so a high average can hide poverty or harm. **Judgement:** GDP per capita is a useful starting measure but should be combined with others (e.g. HDI) – its reliability depends on the country