Exercise walk-through

National income statistics ▪ 4.1

eXercise

You must be able to

- define GDP and GNI and distinguish nominal from real
- explain why real GDP per capita is used to compare living standards
- analyse the limitations of national income as a welfare measure

Method — Measuring the economy

*Always compare **real** **实际** values (adjusted for inflation) over time*

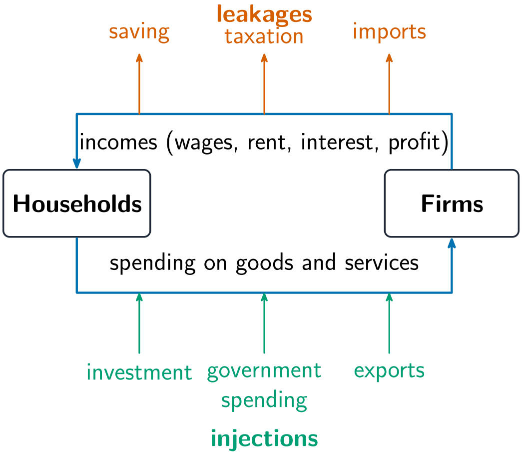
- **GDP 国内生产总值**: value of all goods/services made **inside** a country in a year. **GNI** adds net income from **abroad**.
- **Nominal 名义** = at current prices; **real 实际** = adjusted for inflation (the true change).
- **Per capita 人均** = divided by population (the average per person).
- **Limits:** ignores income **distribution 分配**, unpaid/informal work, pollution and leisure.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

Method — Measuring the economy

National income (GDP) is the value of all a country produces in a year

Method — Measuring the economy



Practice 2.1 ▪ 2 marks

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

Solution 2.1

Worked steps

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).

Practice 2.2 ▪ 2 marks

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

Solution 2.2

Method: Measuring the economy

Worked steps

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).

Practice 2.3 ▪ 1 mark

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

Solution 2.3

Method: Measuring the economy

Worked steps

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

Exam-style 3.1 ▪ 1 mark

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

A nominal GDP

B real GDP per capita

C total nominal GNI

D the size of the population

Solution 3.1

Method: Measuring the economy

A nominal GDP

B real GDP per capita ✓

C total nominal GNI

D the size of the population

Worked steps

B. Real GDP per capita removes inflation and population effects.

Exam-style 3.2 ▪ 6 marks

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

Solution 3.2

Method: Measuring the economy

Worked steps

[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.

Exam-style 3.3 ▪ 12 marks

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

Solution 3.3

Method: Measuring the economy

Worked steps

[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.