

## 2.2 Limitations of GDP

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Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

Total: 10 marks

### Objective

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Build the skills to answer exam questions on **the limitations of GDP**.

**You must be able to:**

- explain why GDP omits **nonmarket transactions** 非市场交易
- describe how the **underground economy** 地下经济 causes GDP to understate output
- explain why GDP ignores **externalities** 外部性, resource depletion, and income distribution
- explain why **GDP per capita** 人均 GDP is better for comparing living standards

### 1 Worked examples

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Study these first. Each one shows the method for a question type used later.

#### ■ What GDP leaves out

- **Nonmarket** work: housework, volunteering, DIY.
- The **underground economy**: unreported and illegal activity (so GDP understates output).
- **Externalities** and resource depletion: pollution and using up nature are ignored.
- **Leisure** and the **distribution** of income: two countries with equal GDP can differ hugely in well-being.

#### ■ GDP per capita

Dividing by population gives **GDP per capita**, a far better guide to average living standards than total GDP.

### 2 Practice

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**2.1** State two things that GDP fails to measure.

[2]

**2.2** State why GDP per capita is better than total GDP for comparing living standards.[1]

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**2.3** Explain why the underground economy causes GDP to understate output. [2]

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### 3 Exam-style questions

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**3.1** GDP does **not** include [1]

- **A** restaurant meals
  - **B** unpaid housework
  - **C** newly built houses
  - **D** exports
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**3.2** To compare living standards across countries, economists prefer [1]

- **A** total GDP
  - **B** GDP per capita
  - **C** nominal GDP
  - **D** the CPI
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**3.3** A country has a high GDP but severe pollution and very unequal incomes.

(a) State two limitations of GDP that this illustrates. [2]

(b) Name a per-person measure that better reflects average living standards. [1]

### 4 Go further

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- work through the **2.2 Limitations of GDP** lesson on the **Learn** page;

- read the **Economic Indicators and the Business Cycle** section of the AP Macroeconomics handout on the **Know** page.

## Solutions

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**2.1** any two of: nonmarket production, the underground economy, externalities/pollution, leisure, income distribution.

**2.2** it adjusts for population, so it reflects output **per person** rather than the size of the country.

**2.3** its activity is unreported, so that output is missing from the official GDP figure.

**3.1 B.**

**3.2 B.**

**3.3** (a) it ignores externalities/pollution and the distribution of income. (b) GDP per capita.