

2 Using Extract D, evaluate the effectiveness of GDP per capita in comparing living standards between countries.

(20)

Living standards in ~~the~~ a country can be measured by HDI, GDP per capita, Gini coefficient, ~~the HDI includes GDP, years of schooling and Lorenz curve.~~

GDP per capita measures people's incomes in the country. It is effective because it shows the economic situation in the economy by showing people's incomes. For example, in the Extract D, GDP per capita of the UK is 48776, whereas GDP of India is 1455. In India, it is much lower. Therefore, it allows us to analyse and conclude that the UK is a developed country and as it has very high GDP.

GDP is also effective to measure standards of living because how much people can consume depends on their incomes. If incomes (GDP) in the country is low, like in India, the consumption is low. Whereas in Russia for example, GDP is 14487. ~~so~~ As consumption is a component of circular flow and aggregate demand, lower GDP can ~~tell us~~ ~~tell us~~ tell us that economic growth in India could be slower than in Russia.



However, GDP's drawback is that it doesn't take into consideration inequality. If a society in a country is very unequal, GDP can be high because of a high percentage of income ~~own~~ owned by the richest people and the poorest are not considered. So the GDP measure in this case can be misleading. Another drawback is that GDP doesn't take into consideration healthcare and life expectancy, which are indicators of standards of living as well.

An alternative measure of standards of living is HDI, which includes GDP, years of schooling and life expectancy. This is a broader measure ~~And~~ than GDP. ~~but~~ HDI can be between 0 and 1. The ~~high~~ closer to 1, the higher are standards of living. For example, from the Extract 5, we can see that the UK has higher standards of living than India, because UK's HDI is 0.89 and India's is 0.58. However, HDI ~~does not~~ does not consider inequality either, so it is not very accurate.

Another measure that can be used instead of GDP is Gini coefficient. Gini coefficient is used to measure inequality and the closer to 1



Gini coefficient is, the more unequal is society in a country. For example, Brazil is more ~~unequal~~ unequal than China, as their Gini coefficients are 0.54 and 0.32 respectively. Gini coefficient is calculated from the Lorenz curve by considering ~~the~~ the relationship of % of income earned by households. But it can be inaccurate as it doesn't consider changes in people's incomes over time.

Overall, GDP is ~~not~~ a good measure of standards of living in terms of income, but it doesn't consider inequality as well as HDI. So when measuring standards of living a mix of indicators should be used -

(Total for Question 2 = 20 marks)

GDP, HDI and GINI coefficient
to consider income, literacy, life expectancy and inequality as well.

TOTAL FOR SECTION B = 20 MARKS

