SYLLABUS REFERENCE 3.1: Analysing National Income Statistics

Advantages

1. Allows government to observe if the economy is producing more goods and services
2. Allows government to remove the inflationary effect that appears in nominal national income
3. Business firms use the real national income statistics to make forecasts about demand and therefore this will influence their investment decisions
4. Economy can record the changes in the standard of living using the real gdp and this is one of the 3 key components in measuring development (+ health+education)
5. GDP data allows for international comparisons

Disadvantages:

1. Data can often be inaccurate as full tax returns may not be available and therefore the full extent of the incomes is not clear. Remember government ultimately measures the income via income tax returns but self employed may cause time lags to occur
2. Informal /black / parallel markets is not recorded. In Greece this is often estimated to be in excess of 20% of all economic activity
3. GDP often does not include damage caused by Externalities. 'Green GDP' is an interesting concept here as some nations pollute with excessively high carbon output levels e.g. India, China.
4. GDP is not the only component of development and quality of life may fall even if GDP is rising
5. Public goods such as defence spending does not improve the standard of living although the spending is included in GDP

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(b) Discuss the usefulness of real GDP per capita as a method of measuring the living standards of a country's population. [15 marks]

M14/3/ECONO/SP1/ENG/TZ2/XX

Macroeconomics is about 'SPENDING". The national income can be measured by measuring the level of spending in an economy i.e. expenditure method noted on page 3 above. The spending formula for a macroeconomy is represented by Aggregate Demand (AD)

Formula:

$$AD\ (_{NI}) =$$

C + I + G +(X-M)

C = household spending
I = firms spending on capital (factories etc)
G = government spending (current + capital expenditure) (see W 318)
(X-M) = Net exports (X-M)

Government Sector: