CONCEPT: SHORTCOMINGS OF GDP

● *GDP* is a variable used to measure (1) total _____ in the economy and (2) the _____ of its citizens.

● Goods and services are produced but do not contribute to the GDP calculation, though they arguably should:

    □ *Household Production* – the value of goods produced for _____

        > A carpenter produces bookshelves for a living, but also produced one to use at home

        > The services of a homemaker (stay-at-home parent) compared to a hired nanny or maid service

    □ *Underground Economy* – buying and selling of goods that is _____ from the government

        > Illegal goods and services, such as drugs and prostitution

        > Avoiding taxes on income earned

        > Avoiding government regulations

    □ Does the exclusion of household production and underground economy significantly affect GDP's usefulness?

        > In the short run, the changes in GDP from year to year from these sources is generally constant

        > In the long run, social changes can have drastic effects on these sources

            - Example: In the 1970s, the number of women in the workforce increased dramatically

            - This led to "artificial" increases to GDP: Previously unmeasured production was now included

● GDP per capita can be used to signify the well-being of the citizens, but a measure of well-being should arguably include:

    □ *Value of Leisure*: GDP would be higher if everyone worked 80 hours a week

    □ *Environmental effects*: GDP would be higher without environmental regulations

        > Example: As a measure of well-being, GDP should arguably be reduced for health hazards from pollution

    □ *Crime and Social Problems*: More crime means more government spending on police, but is that actually good?

    □ *Equity in GDP*: GDP measures the "size" of the pie, but not how it is divided

        > Even if GDP is increasing, consumption may not increase equally per person