PENANG SANGAM HIGH SCHOOL
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LESSON NOTES

Subject: Economics **Year/Level:** 12

Week 8

Strand	3	Macroeconomics
Sub Strand	3.1	National Income
Content Learning Outcome	Explore the Real GDP in the context of the Fiji economy.	

Greetings to all…

We will now look at the limitations of GDP.

Lesson Notes (Copy in your note book)

Limitations of GDP

1. The GDP figures do not take into account:

(i) Non market activities i.e. the household production is not taken into account while calculating GDP. If the goods and services are sold, it can be counted but if it is not sold it is not counted therefore excluded in GDP figures. Example voluntary labour

(ii) Goods and services traded on informal markets.

(iii) Illegal market activities are not counted e.g. drugs, leisure activities are also not accounted for in GDP figures.

2. The relative merit of production – there is no distinction in the national income account of the relative "goods" or "bads" of production.
   For e.g. a dollar spent on cigarettes may carry out the same weight as a dollar spent on education.

3. Distribution of Income –It gives no indication of how this production is distributed. A country may have high GDP yet due to uneven distribution there may be a large number of people living in poverty. Not able to share the country's high level of production.

4. Social conditions, GDP does not take into account for:

   a) Resources that were not used e.g. production lost through unemployment.

   b) The relative social, political or the working conditions of the economy that create the output.

5. Ecological cost are underestimated in the calculation of GDP i.e. externalities created by economic activity.

6. Role of women are under - represented in calculation of GDP e.g. the motherhood and the child care that mould the young for future generation which in turn contributes to a great deal in the economy is under represented.

7. Transfer of existing assets is not counted in GDP

Activity (Copy and solve in your note book)

Use the knowledge of the GDP calculation and try to solve the following questions..

	$m
Exports of goods and services	50
Final consumption expenditure: government	35
Final consumption expenditure: private	55
Gross fixed capital formation	40
Taxes on production and imports	30
Less imports on goods and services	55
Statistical discrepancy	5
Change in inventories	10

i. Define **Gross Domestic Product** (GDP).

ii. Explain why **Real GDP** is a better measure of a country's economic growth than **Nominal GDP**.

iii. Use the **expenditure approach** to calculate **GDP**

We will discuss the activity in our next lesson.

Stay Safe………