

CHAPTER 4 GROSS DOMESTIC PRODUCT

DEFINITIONS

- 1) **Gross Domestic Product (GDP)** the total monetary value of the overall output of goods and services produced annually within a country's geographic borders
- 2) **peer-to-peer platforms** decentralized online platforms whereby two individuals interact directly with each other, without intermediation by a third-party, or without the use of a company or business selling a product or service; *P2P platforms*
- 3) **distribution** the movement of goods and services from the producer to the final consumer or end user
- 4) **consumer** a buyer of goods and services who uses them to satisfy their needs
- 5) **consumption** the proportion of national income spent by households on final goods and services; *consumption expenditure*
- 6) **goods** products made to satisfy needs
- 7) **sold value** total amount of all sales expressed in monetary terms
- 8) **final goods** products whose manufacture is complete but which are waiting to be sold; *finished goods*
- 9) **aggregate variables** various economy-wide phenomena, such as GDP, national income, growth rates, unemployment and price levels; *aggregate economic variables*
- 10) **incomes** earnings received from doing work or from investments
- 11) **households** economic units comprised of a single person living alone, a family or a group of people voluntarily living under the same roof and sharing living arrangements
- 12) **metric** standard of measurement by which efficiency, performance, progress, or quality of a plan, process, or product can be assessed
- 13) **aggregate** made up of several smaller amounts or scores added together
- 14) **evidence** facts or data that make something plain or clear
- 15) **average(s)** the arithmetic mean obtained by dividing the sum of two or more quantities by the number of items
- 16) **economic growth** an increase in a country's output of goods and services over time; *growth (1)*
- 17) **commuters** people who travel some distance every day to get to work
- 18) **work-life balance** the optimal arrangement of an individual's on-the-job and private time to facilitate health and personal satisfaction without negatively impacting productivity and professional success
- 19) **market measures** figures corresponding to economic activity that are actually recorded in the national income accounts
- 20) **nonmarket activities** economic activities that, although usually legal, are not recorded in the national income accounts
- 21) **domestic labor** the many tasks associated with maintaining a household such as childcare, elder care, or housework
- 22) **bartering** trading goods or services for other things instead of for money
- 23) **carpooling** an arrangement whereby several participants travel together in one vehicle, sharing the costs and often taking turns as the driver
- 24) **childcare** the supervision and nurturing of a child provided by a parent, a childminder or by an organized childcare centre
- 25) **coops (cooperatives)** user-owned and user-controlled businesses that distribute benefits on the basis of use
- 26) **healthcare** the maintenance and improvement of personal health

- 27) **finite resources** natural materials that once consumed cannot be replaced; *non-renewable resources, depletable resources*
- 28) **externalities** factors that are not included in the gross national product but which have an effect on human welfare
- 29) **consumer surplus** the difference between the total amount that consumers are willing and able to pay for a good or service (indicated by the demand curve) and the total amount that they actually do pay (i.e. the market price)
- 30) **sharing economy** an economic model based on people taking underutilized assets (resources) and making them accessible online to a community, for free or for payment, leading to a reduced need for ownership of those assets; *crowd-based capitalism, on-demand economy, gig economy*
- 31) **World Bank** a United Nations agency established in 1944 to assist developing nations through loans guaranteed by member governments
- 32) **Human Development Index** a tool for measuring the social and economic development levels of countries, taking into account schooling, life expectancy and gross national income per capita
- 33) **educational attainment** the highest level of education that an individual has completed
- 34) **standards of living** the monetary and non-monetary or social indicators which characterize a person's lifestyle, traditionally measured by a country's gross national product and per capita income; *living standards*
- 35) **Office for National Statistics** executive office of the UK Statistics Authority, a non ministerial department which is charged with the collection and publication of statistics related to the economy, population and society of the UK
- 36) **OECD (Organization for Economic Cooperation and Development)** an intergovernmental economic organization of 35 member countries, committed to democracy and the market economy, which was founded in 1960 to develop economic progress and world trade
- 37) **sustainability** development that meets the needs of the present, without compromising the ability of future generations to meet their own needs; *sustainable development*
- 38) **digitization** conversion of analog information in any form (text, images, voice, etc.) to digital form so that the information can be processed, stored, and transmitted through digital circuits, equipment, and networks; *digitalization*
- 39) **search engines** computer software used to search for data on the internet like that of Google or Internet Explorer
- 40) **feedback** information derived from the reaction or response to a product, process or activity
- 41) **empowered** having been provided with the means to achieve something

1. Turn to the **definitions** for the text *Gross Domestic Product*. They refer to the specialist terms printed in **bold** type in the list of **Useful words and concepts**.
2. Use an **English** language dictionary to find the meanings (in context) of the other words in the list.
3. Do the exercises to improve your language skills.

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Peer-to-peer platforms are transforming financing, production, distribution, and service delivery around the world. The challenge is finding ways to measure the impact of these

different changes, which include economic effects, qualitative changes in consumer habits, and other improvements of people's economic lives.

Do our established models for measuring economic impacts measure up?

It's helpful to start by assessing the commonly used measure of economic activity, the GDP index, a measure of consumption and production calculated through the prices of all goods and services produced in an economy. In essence, GDP captures the "sold value" of production of final goods in the economy by subtracting intermediate forms of consumption, thus providing a clear net picture of economic activity. It focuses on aggregate variables - the total sum of money spent on goods and services, or the total sum of incomes paid out to households, or the total sum of expenditures. While not perfect, these combined approaches provide a useful picture of the overall health of traditional economies.

While GDP remains a key metric for making fiscal and monetary policy decisions, a number of shortcomings of GDP as a measure of economic health are well known.

First, GDP is an aggregate measure. It provides no evidence of how income or consumption or wealth is distributed. Large changes in inequality may not be represented in the GDP's averages or aggregate statistics.

Second, GDP doesn't fully capture the extent to which economic growth can, at times, have a negative impact on quality of life. Increasing traffic congestion also increases gas consumption, which adds to GDP, but the long-term impacts of traffic congestion are generally not positive - they lower commuters' quality of life by extending their workday and compromising their work-life balance.

Third, since GDP is only focused on market measures, nonmarket activities (e.g., unpaid domestic labor, do-it-yourself repairs, and various forms of bartering and exchange) also typically go unmeasured.

Correspondingly, if previous nonmarket economic activities like carpooling, childcare, coops, supper clubs, and apartment barterers start to become commercial, GDP may overstate changes in economic activity.

Fourth, GDP is, in a sense, blind to the *quality* of spending - spending on education or healthcare and spending on gambling are treated the same, with no regard for the impact these very different types of spending might have on future growth and well-being. Indeed, quantity rather than quality, is the focus of the GDP, which means quality-of-life improvements often slip under the radar.

Fifth, since the GDP does not take finite resources into account, spending that is unsustainable (e.g., spending on coal, oil, or gas and other nonrenewable resources) are not adequately captured.

On a related note, other externalities, such as pollution and overcrowding, are also overlooked in GDP measures.

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And finally, GDP does not capture changes in "consumer surplus".

The shortcomings of the GDP are by no means news, even if they become increasingly salient with the rise of the sharing economy. As a result, there are already at least a few alternative measures proposed. The World Bank's Human Development Index seeks to measure broader social indicators (e.g., educational attainment and health) and standards of living (like leisure time). The UK Office for National Statistics has adopted the Measures of National Well-being and now releases a dashboard of indicators on a quarterly basis that seek to capture economic impacts that extend the limited measures captured by the GDP. The Better Life Indicator of the Organization for Economic Cooperation and Development (OECD) takes into account additional factors, including civic engagement and work-life

balance. A more radical shift in thinking is represented by the Social Progress Index, which replaces economic metrics with social and environmental ones. Here, basic human needs, such as nutrition and access to basic medical care, water, sanitation services, and safety, are weighed alongside other factors including sustainability, human rights (e.g., freedom of assembly), tolerance (e.g., for immigrants) and access to higher education. The digitization of the economy exacerbates some of these shortcomings with GDP. Consider the example of measuring the economic impact of search engines like those of Google or Internet Explorer. As search engine use has become widespread, consumers have become increasingly empowered - they can make better choices with access to superior information, a large number of markets, and up-to-date feedback and reviews on products. However, part of the higher quality of one's consumer experience is often realized as an intangible "better product fit" or by an increase in what economists call "consumer surplus," which, loosely speaking, measures the difference between the maximum amount the consumer would be willing to pay for a product or service and the actual amount paid. Thus, a big fraction of Google's impact on the economy isn't captured since changes in consumer surplus are not reflected in the GDP.

Sundararajan, Arun., *The Sharing Economy: The End of Employment and the Rise of Crowd-Based Capitalism*, 792 word excerpt from pages 110-112, © 2016 Arun Sundararajan, by permission of the MIT Press.

EXERCISES

EXERCISE 1 *Comprehension*

True / False Circle the correct choice and justify your answer

1. The three aggregate variables focused on by GDP add up to the same amount. T / F
2. Economists have long been aware of the GDP's shortcomings. T / F
3. GDP figures capture adequately the unequal distribution of wealth in society. T / F
4. Nonmarket activities escape measurement by the GDP index. T / F
5. It doesn't really matter that spending on gas, gambling and health care receive equal treatment in GDP metrics. T / F
6. Externalities are adequately taken into account in GDP measures. T / F
7. The author considers that the Social Progress Index is too radical to replace economic metrics. T / F
8. The higher quality of spending enabled by the digitization of the economy is not accounted for in the GDP. T / F
9. Google is the only search engine to have successfully empowered consumers. T / F
10. The GDP metric should be discarded. T / F

EXERCISE 2 *Vocabulary*

(A) Use the list of definitions above to **select the appropriate terms** to fit each sentence

1. The motivations for engaging in crowd-based capitalism are not always purely monetary issues such as also come into it.
2. The sharing economy creates new experiences of higher quality and greater variety.
3. The dramatic increases in quality and variety brought by crowd-based capitalism are bound to accelerate, rather than slow
4. One observer has lamented the absence of clear that the digital revolution of the last two decades has had a significant impact on the growth rates of total factor productivity.
5. The expansion of crowd-based capitalism reinforces the need to extend our measurement of economic impacts to include indicators not well captured by
6. The Lyft app enables on demand, but flexibly, on your own schedule.

7. A number of studies over the last 15 years have documented changes in that digitization creates.
8. By 2013, cities were grappling with the regulatory challenges raised by platforms like Airbnb.
9. One economist hypothesizes that part of the returns of are often captured by a firm's employees in the form of human capital which diffuses to other firms when these employees switch jobs.
10. Digital technologies will quite possibly expand into much broader areas of the economy, such as real estate, transportation, energy and

(B) Find words or expressions in the text that mean the following

1. when a road is extremely crowded and blocked with cars, buses and lorries
2. not able to be maintained at the same rate or level
3. in approximate terms, more or less
4. be good enough to fulfil people's expectations
5. considered carefully
6. occurring over a large area or to a great extent
7. not noticed or seen as important
8. weaknesses or deficiencies
9. describing something in a way that makes it seem more important than it actually is
10. provided with the means to achieve something

EXERCISE 3 **Grammar: Interrogatives**

Ask questions using: how / how much / who / whose / which / what / when / why

1. The shortcomings of GDP as a measure of economic health are very well known. [how]
2. GDP does not take finite resources into account. [what]
3. GDP focuses on aggregate variables. [which]
4. The UK Office for National Statistics has adopted the Measures of National Well-being. [who]
5. Quantity rather than quality is the focus of GDP, which means quality-of-life improvements often slip under the radar. [why]
6. The impacts of traffic congestion lower commuters' quality of life. [whose]
7. As search engine use has become widespread, consumers have become increasingly empowered. [when]
8. Consumer surplus measures the difference between the maximum amount the consumer would be willing to pay for a product and the actual amount paid. [what]
9. GDP provides no evidence of how income or consumption or wealth is distributed. [how much]
10. GDP captures the "sold value" of production of final goods in the economy by subtracting intermediate forms of consumption. [how]

EXERCISE 4 **Assignment**

1. **Write** a composition of around 400 words summing up the author's criticisms of GDP, saying whether you believe these criticisms are well-founded or not. Make clear what your views are on GDP as a measure of economic activity.
2. The author proposes four alternative measures that address economic impacts not taken into account by the GDP. Use these proposals, as well as ideas of your own, to **design** an improved GDP index.

Deliver a 15-minute **oral presentation** of your results to the class.