Beyond the Total

Read how three GDP measures describe an economy and where each falls short.

E.5.2 "Explain the limitations of using GDP to measure economic welfare. Compare the different types of GDP and (nominal, per capita, real) explain the strengths and limitations of each."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline one strength and circle one limitation for each GDP measure: nominal, real, and per capita. Number two things GDP leaves out of economic welfare.

What the Docks Cannot Tell Us

1. At Coastland's busy docks, workers pack fish for sale, while nearby factories make ice and boats. Gross domestic product, or GDP, adds the market value of final goods and services produced inside a country during a set period. It measures economic activity, not how happy people are. Nominal GDP uses prices from the year being measured, so it shows the economy's value in current dollars. Imagine bikes were Coastland's only product. One million bikes sold for $200 each one year and $250 each the next. Nominal GDP would rise from $200 million to $250 million, even if output stayed at one million bikes.

2. Real GDP values production using prices from a chosen base year. By holding prices steady, it removes the effect of inflation, making it more useful than nominal GDP for comparing output across years. Yet real GDP is a total: a growing population may have to share a larger total. GDP per capita divides GDP by the number of people. Using real GDP per capita also removes inflation, so it offers a rough comparison of the average value of output per person across years. But an average can hide unequal incomes, and it does not show whether everyone can afford basic needs.

3. Suppose Coastland clears a marsh to build a shipping terminal. Construction and shipping add to GDP, but the lost habitat is not subtracted from the total. A volunteer group might restore another marsh without raising GDP much, since unpaid work is usually excluded. GDP also says little about free time, health, or pollution from the new terminal. Nominal GDP helps describe current-dollar market activity; real GDP tracks changes in output; per capita GDP puts a total in population context. None of them, alone, can prove that people's lives improved. A useful welfare judgment needs other evidence, such as health and environmental measures.

2 ANSWER WITH EVIDENCE

Use the passage

1. In the bike example, how would nominal GDP and real GDP differ from one year to the next? Explain why.

2. Why might real GDP rise while real GDP per capita falls? Which measure better accounts for population growth?

3. What does GDP per capita help you compare, and why can it still give a misleading picture of people's welfare?

4. Why could Coastland's GDP rise after the terminal is built even if some residents are worse off? Use two details from the passage.

3 YOUR TURN

Your own words

Invent a country where nominal GDP rises but well-being does not improve. In three sentences, explain the cause, choose a GDP measure that tests whether output or output per person improved, and identify one welfare cost that even that measure misses.

Beyond the Total

PART 1 · READ AND MARK

Underline one strength and circle one limitation for each GDP measure: nominal, real, and per capita. Number two things GDP leaves out of economic welfare. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	In the bike example, how would nominal GDP and real GDP differ from one year to the next? Explain why.	**Nominal GDP rises from $200 million to $250 million because the price rises. Real GDP stays the same because the number of bikes produced does not change.**
2	Why might real GDP rise while real GDP per capita falls? Which measure better accounts for population growth?	**If population grows faster than total output, real GDP can rise while real GDP per capita falls. Real GDP per capita accounts for the number of people.**
3	What does GDP per capita help you compare, and why can it still give a misleading picture of people's welfare?	**It helps compare the average value of output per person. The average can hide unequal incomes and does not show whether everyone can afford basic needs.**
4	Why could Coastland's GDP rise after the terminal is built even if some residents are worse off? Use two details from the passage.	**Construction and shipping add to GDP, but GDP does not subtract the lost marsh habitat or account for pollution from the terminal.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

In Ridgeview, prices rise while the number of goods made stays the same, so nominal GDP increases. Real GDP would show that output has not increased because it holds prices steady. Even real GDP would miss the air pollution caused by making those goods.

Accept other passage-supported limits, such as unpaid work, health, or free time, where relevant. For Your Turn, the chosen measure must fit the cause the student invents, and the welfare cost must be something that measure does not capture.