



MACROECONOMICS - Living standards

By Kru P'Da and Kru P'Eve Knockout.Economics

Overviews

1. Indicators of living standards
2. The causes of differences in living standards



1. Indicators of living standards

Indicators of living standards

1. Real GDP per head

(average real income per head)

- Rising in real GDP per head means people have **higher income on average**.
- They can **afford more goods and service** including education and healthcare.

Limitation of real GDP per head

1. It does not concern about **income distribution**.
2. A rise in real GDP maybe caused by the production of **demerit goods**. It reduces quality of life.
3. It does not take into account of **quality of goods and service**.
4. If a rise in real GDP means **higher pollution**, living standards will be worsen.
5. If a rise in real GDP caused by **increasing working hours**, living standards will be worsen.

1. Indicators of living standards

Indicators of living standards

2. Human Development Index (HDI)

(a measure of living standards which takes into account of income, education and life expectancy)

- 1) **Income** : measured by real GDP per head (average income per person)
- 2) **Education** : measured by mean year of schooling (average number of years of education received by people aged 25 years and older)
- 3) **Health** : measured by life expectancy (the average life expectancy at birth)

Limitation of Human Development Index

1. It does not take into account of **political freedom and the effect on environment**.
2. HDI does not include some factors that significantly affect living standards, such as the number of doctors per head, internet access, school class size.

2. The causes of differences in living standards

Income : returns to the factors of production such as rent, wage, interest and profit.

Wealth : stock of assets such as house, land and gold.

The causes of differences in living standards

The causes of differences in living standards	
1. Difference in income	➔ High skilled workers earn very high wage and have good living condition, while unemployed workers lack of income and have bad living condition.
2. Difference in wealth	➔ People who inherit money will be wealthy. They own a lot of land and house, they also get rents as an income from their assets. This makes income gap become wider.
3. Difference in education	➔ Educated people tend to have skilled jobs with good payment. They can afford more products and have better living standards.
4. Difference in healthcare	➔ People who are unable to access healthcare tend to have low standard of living.
5. Difference in working hours	➔ People who have long working hours and less time for relax tend to have poor living standard.

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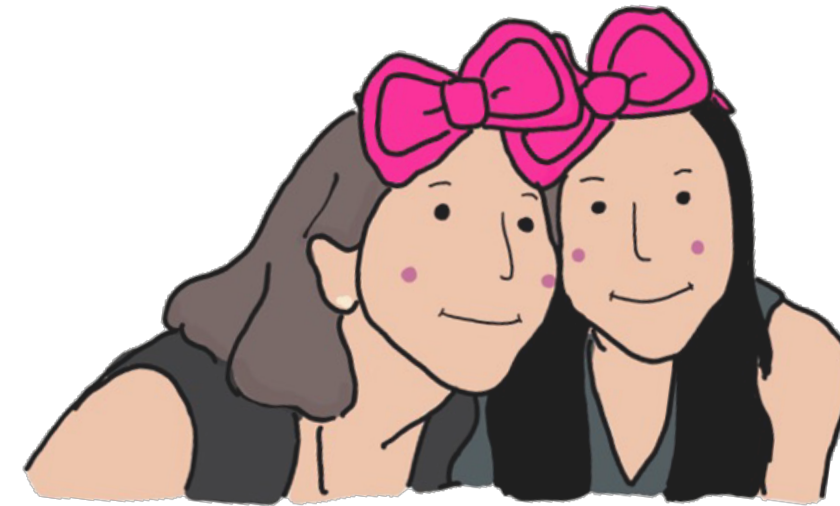
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MACROECONOMICS - Exercise

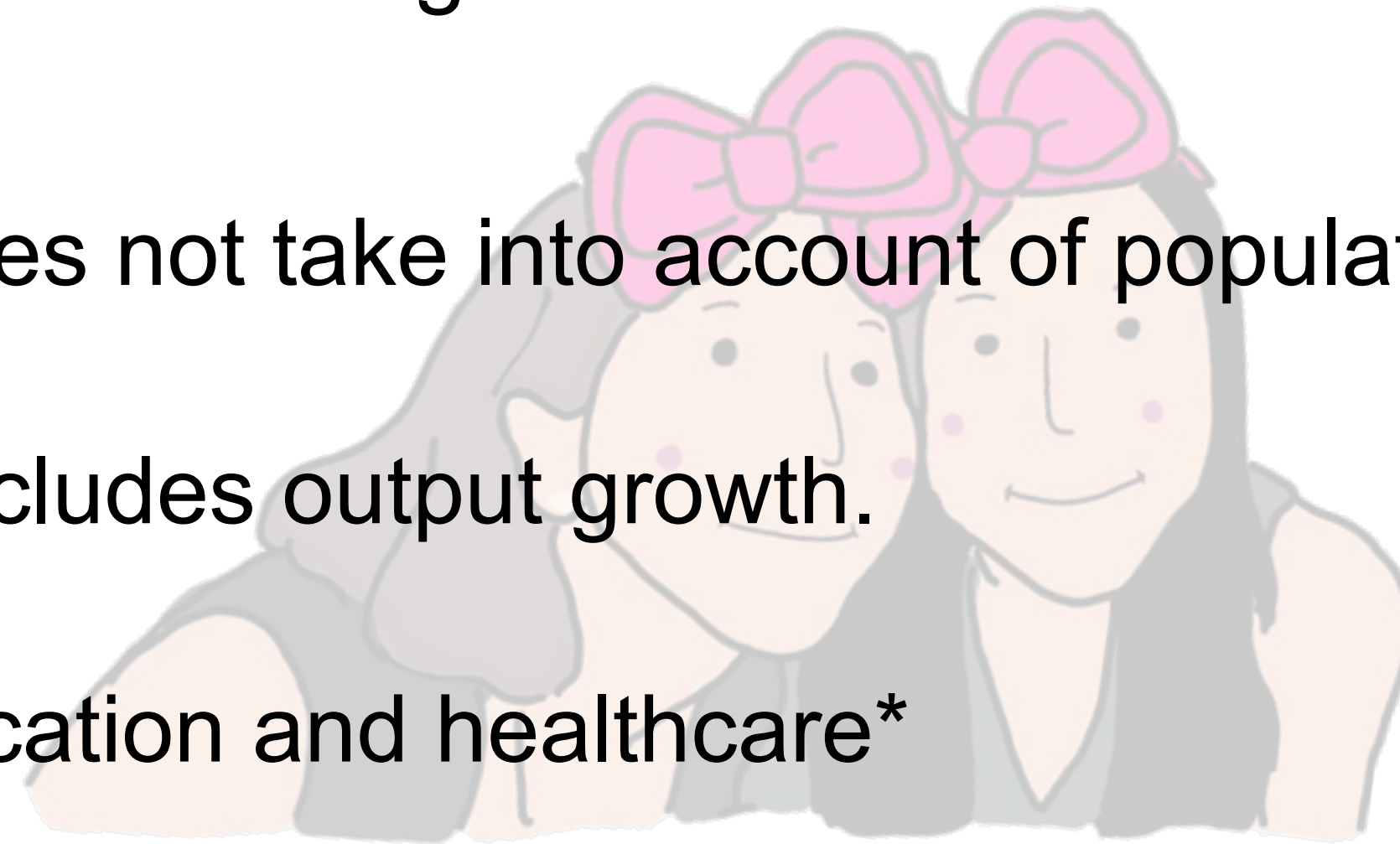
Living standards

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Exercise: MCQ

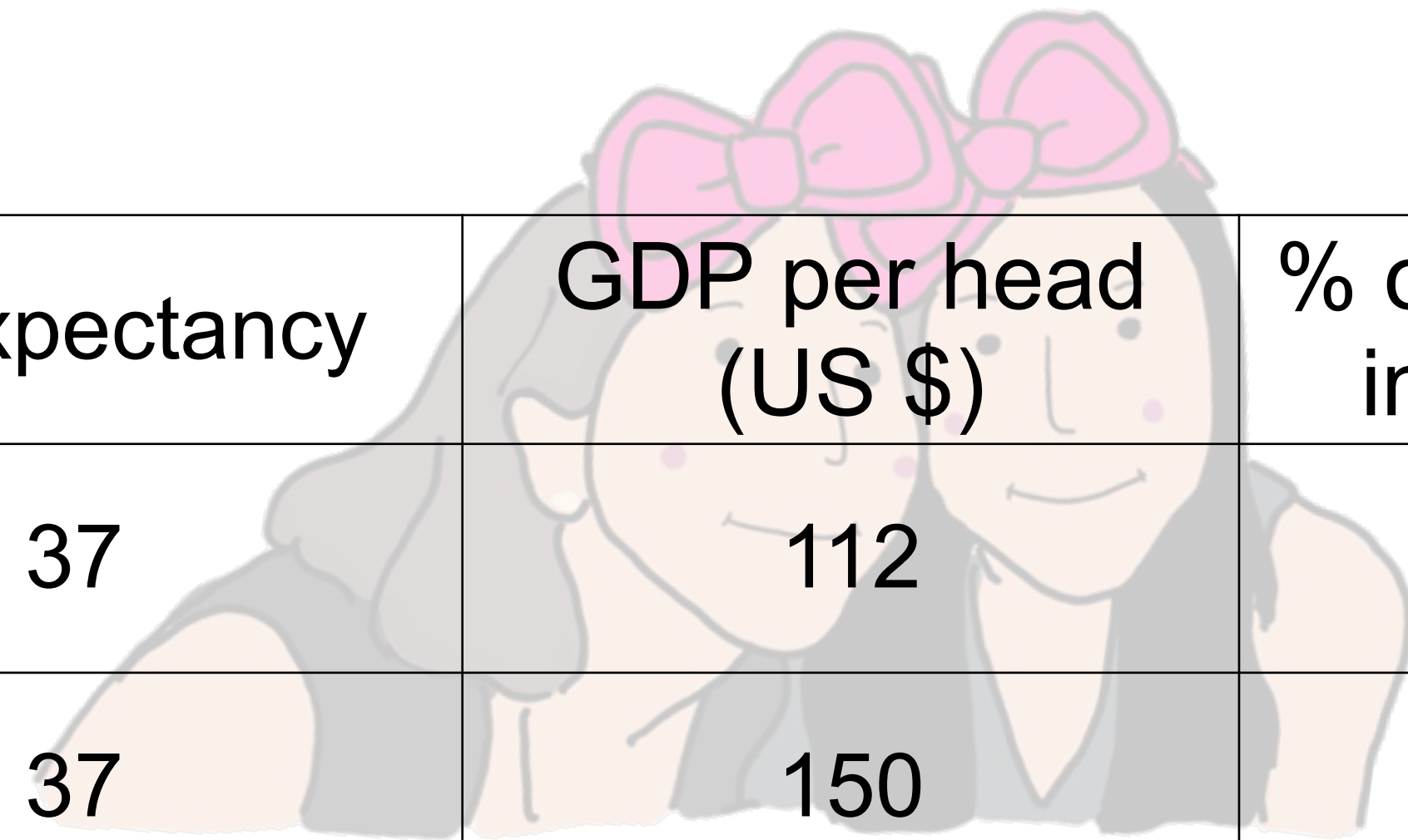
1.) What is a reason why Human Development Index (HDI) considered to be better than GDP per head as a measure of living standards?

- A. GDP per head does not take into account of population growth.
- B. GDP per head excludes output growth.
- C. HDI includes education and healthcare*
- D. HDI is calculated by central bank.



Exercise: MCQ

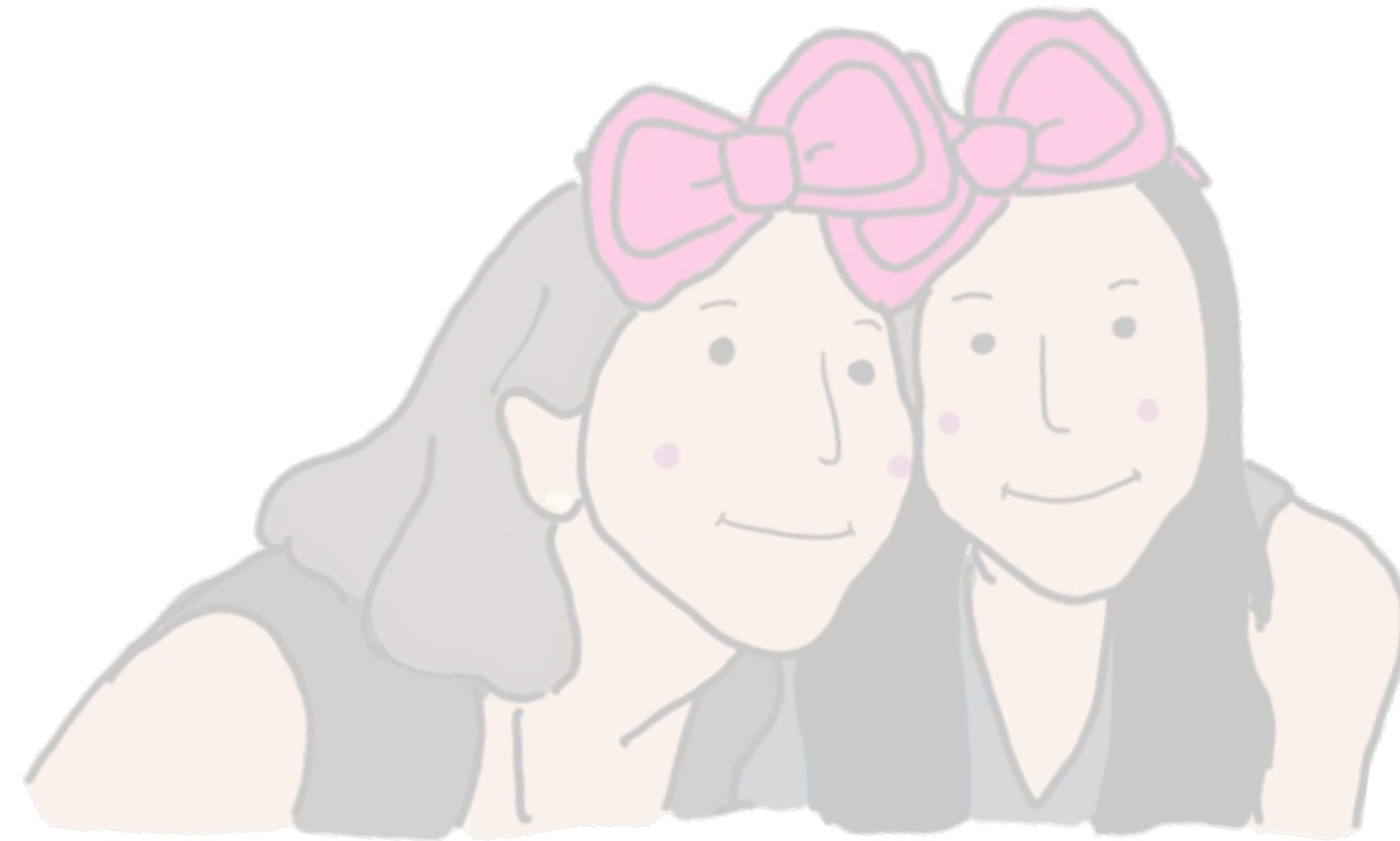
2.) According to information of 4 countries in the table, which country has the lowest standard of living?



	life expectancy	GDP per head (US \$)	% of labour force in agriculture
A*	37	112	85
B	37	150	70
C	55	250	80
D	70	280	65

Exercise: Essay

1.) Explain two indicators of living standards.[4]



Exercise: Essay

1.) Explain two indicators of living standards.[4]

1. Real GDP per head

- Real GDP/Population
- It shows income per head on average

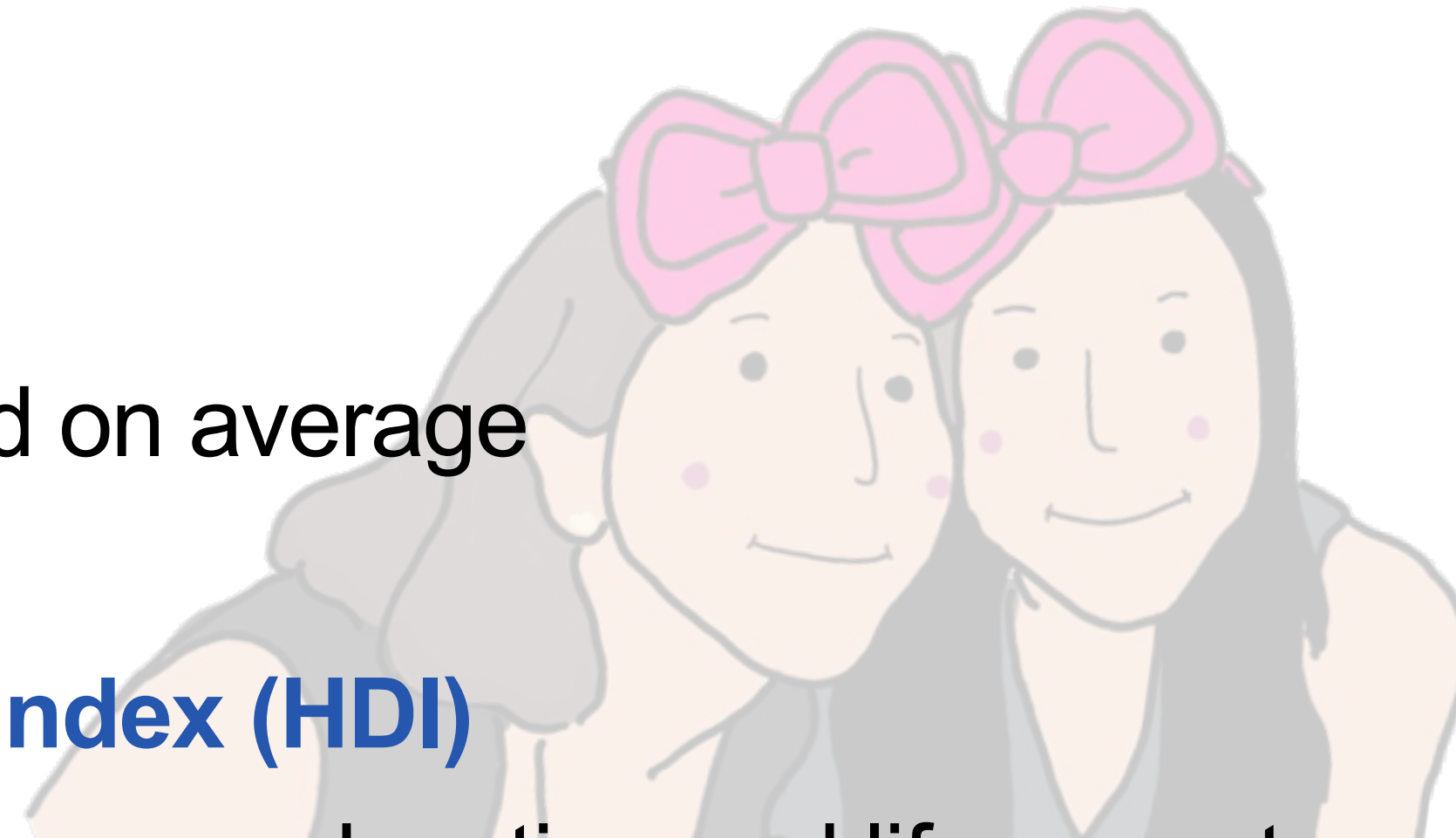
2. Human Development Index (HDI)

- It takes into account of income education and life expectancy.

1) **Income** : measured by real GDP per head (average income per person)

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3) **Health** : measured by life expectancy (the average life expectancy at birth)



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