Meta data of E- Content (Pre production)

S. No.	AREA OF MATA DATA	TO BE FILLED BY CONTENT GENERATOR(S)
1	Topic	Limitations of using GDP as a measure of development/welfare
2	Subject	Economics
3	Topic connected which area of subject?	Chapter 1 -Development
4	Class/ Level	X and XII
5	Objectives	-To explain the role of distribution of income in development/welfare -To discuss how composition of National income affects welfare/development -To discuss how certain benefits/harms cannot be estimated
6	Summary	Four limitations of GDP as a measure of welfare/ development were discussed: Distribution of GDP, Composition of GDP, Externalities, Non monetary exchanges.
7	Key Words	Distribution , composition , harms / benefits of certain goods , welfare , development
8	Team of content persons	1.Seema B Mishra, PGT Economics, Laxman Public School, Hauz Khas, New Delhi 2. Poonam Mathur, PGT Economics, Modern School, Vasant Vihar, New Delhi 3. Gaurangi Agarwal, Junior Project Fellow, Department of Education in Social Sciences, NCERT, New Delhi
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Limitation of using per capita GDP as a measure of welfare/Development

Per Capita GDP is widely used as a measure of development but it has certain limitations, which can be listed as under;

1)**Distribution of income**- Per capita GDP of a country may be increasing but it may not reflect development of all groups of people. Rich may be becoming richer, and the poor may be becoming poorer even if the GDP is rising. GDP is definitely not a good index if we relate welfare improvement in the country to the percentage of people who are better off.

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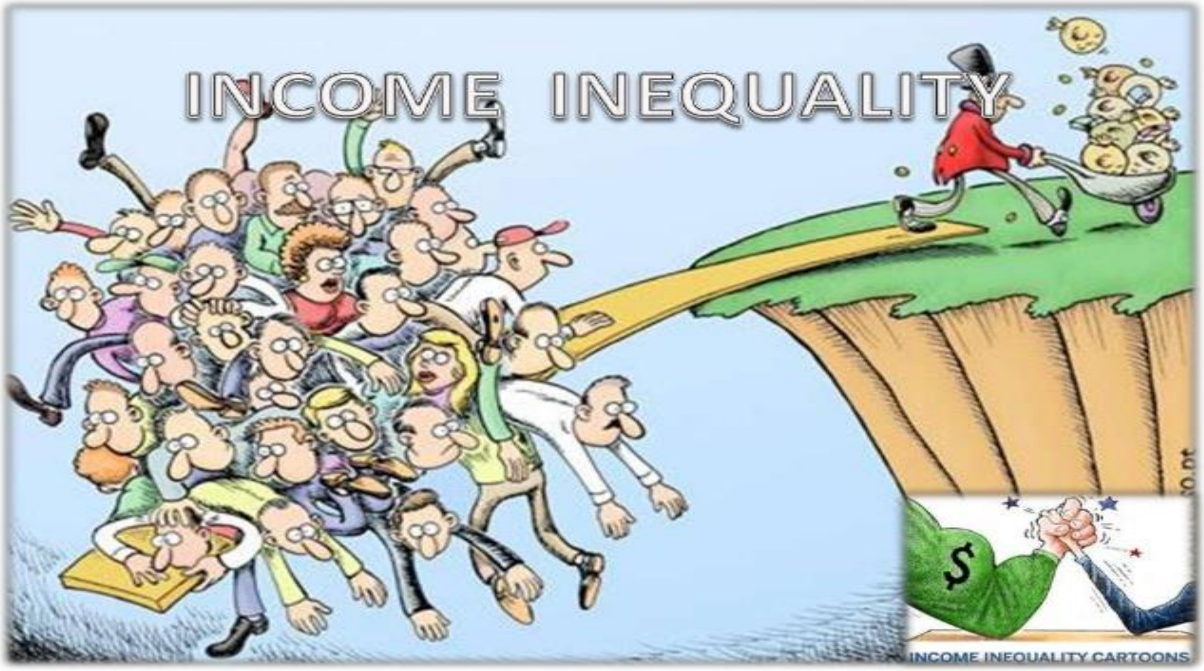

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2) **<u>Composition of GDP</u>** – GDP measures the money value of all final goods and services produced on domestic territory of a country during an accounting year but it does not take into account the type of goods and services produced. Some goods add to welfare/development while some others are harmful for consumption. These are some products which add to GDP but are harmful for welfare: cigarettes, alcohol etc.

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3) **<u>Externalities</u>**- These refer to the benefit (or harm) a firm or an individual causes to another for which they are not paid (or penalised). They cannot be included as they do not have any market where they can be transacted and their value be estimated. Externalities are positive or negative depending on whether the party's actions are benefitting or harming the other party. If they are benefitting, then it is positive externality and if they are harming, then it is negative externality.

Positive externality- When calculating GDP, expenditure on production of these goods is included but not the benefits derived from it. This leads to under estimation of GDP.

 

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Negative Externality- While calculating GDP, production of these goods is included but not the harm caused to others in their production. For example: Costs in the form of harmful effects of pollution caused by various industries are not accounted for by these industries. These effects are not accounted in GDP leading to overestimation of the GDP.

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4. **Non- monetary Exchanges**- Many activities in the economy are not evaluated in the monetary terms. Thus, it does not give us a clear indication of the on- going productive activities in the economy leading to underestimation of GDP. These include domestic services of the women at home, barter exchanges in developing countries etc.

Image Source: en.wikipedia.org

Student Activity

Q.1.) Are the following included in GDP:

a) Services of house- wife.

b) Benefits from roads

c) Pollution from cars

d) Production of cars

Answers:

a)No b)No c)No d)Yes