**Question 1**

 **It has been reported that ‘in the last 30 years Indonesia has struggled out of poverty into the ranks of the world’s middle-income countries. The average Indonesian is better off than five years ago.’**

**If you were asked as an economist to show that the ‘average Indonesian is better off than five years ago’, explain what information you would need.**

To show whether an average Indonesian is now better off compared to the past five years, economists would most probably want to enquire whether their standard of living has risen. Standard of living refers to the average quality of life of a population that includes the material and non-material aspects of life. The material aspect is determined by the quantity of goods and services enjoyed by the individual through its real national income per head, whereas the non-material aspect includes things such as life expectancy, crime rates, education standard, etc. By using standard of living as an indicator, economists are able to obtain a fuller picture so to determine whether one is better off now or not.

To derive the real per capita income, **Gross National Product (GNP)** is needed which is the total money value of all final goods and services produced by resource owned by the citizens of a country, irrespective of whether these resources are located within the country or abroad, before deduction for depreciation, in a year. By dividing the **GNP by the population**, we would be able to determine whether the average income of a citizen has increased as compared to five years ago. The value of GNP per capita must be deflated by the current year price index to reflect the real purchasing power of the real per capita income. If there is an increase in the value of the real per capita income, then it can be said that an average Indonesian citizen is now materially better off compared to five years ago.

However, real GNP per head is not a complete indicator of economic welfare, we would have to refer to other information as discussed in the following paragraphs.

Other areas that could be taken into account include **income distribution**. Also, by making use of the Gini ratio, we would be able to determine the level of income disparity present in Indonesia. If the Gini ratio value is high, then there is greater disparity and any economic growth would not necessarily mean that the average Indonesian has benefited the past five years. Besides this, the Wage to GDP ratio is also helpful in determining the extent of equality of distribution of the income in the country whereby a higher level of Wage to GDP ratio would be considered more equal and vice-versa. It is only with the information that the standard of living of the Indonesian people can be gauged.

It is also important for economists to take note of the composition of output. If the production of goods and services are mainly for the welfare of the consumers, the increase in the national income will mean a rise in the level of material consumption for the people. This can also be seen in term of the level of public goods and merit goods produced by the government.

Measurable Economic Welfare (MEW) is a measure that seeks to gain a fuller picture of the living standard by adjusting national income statistics to take into account other factors that have an impact on the quality of people’s lives. Factors that improve standard of living include increased leisure hours and factors that decrease the standard of living include rising crime and pollution. Of course in practice, this is difficult and expensive to measure the value of non-marketed “goods” and “bads”.

The Human Development Index (HDI) takes into account real GDP per head, life expectancy at birth and educational attainment as measured by adult literacy and combined primary, secondary and tertiary enrollment ratio.

To determine whether an average Indonesian is now better off compared to the last five years comprises of a very wide scope. As an economist, the first priority would be given into looking at the changes in the standard of living. However, if the data is insufficient, he can also look into other areas such as price level and income disparity and draw a conclusion whether there had been evidence shown that “the average Indonesian is now better of than five years ago”.