**CSQ 2010 MAQn 1A- National Income Indicators**

Table 1: United States

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2000** | **2001** | **2002** | **2003** |
| GDP per head ($ at PPP) | 34,770 | 35,438 | 36,432 | 37,831 |
| GDP (% real change pa) | 3.66 | 0.51 | 2.19 | 3.12 |
| Government consumption (% of GDP) | 17.54 | 17.97 | 18.44 | 18.72 |
| Budget balance (% of GDP) | 2.44 | 1.27 | -1.52 | -3.46 |
| Consumer prices (% change pa; av) | 3.37 | 2.83 | 1.58 | 2.28 |
| Public debt (% of GDP) | 57.98 | 57.47 | 59.75 | 62.43 |
| Labour costs per hour (USD) | 19.76 | 20.60 | 21.33 | 21.83 |
| Recorded unemployment (%) | 3.98 | 4.76 | 5.78 | 5.99 |
| Current-account balance/GDP | -4.19 | -3.90 | -4.59 | -4.90 |
| Foreign-exchange reserves (mUS$) | 56,600 | 57,633 | 67,962 | 74,894 |

*Source: The Economists, 26th May 2004*

Table 1: Japan

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2000** | **2001** | **2002** | **2003** |
| GDP per head ($ at PPP) | 25,948 | 26,639 | 26,944 | 28,000 |
| GDP (% real change pa) | 2.14 | 0.60 | -0.24 | 2.72 |
| Government consumption (% of GDP) | 16.43 | 17.08 | 17.66 | 17.50 |
| Budget balance (% of GDP) | -7.43 | -6.08 | -7.12 | -7.42 |
| Consumer prices (% change pa; av) | -0.67 | -0.73 | -0.92 | -0.25 |
| Public debt (% of GDP) | 133.06 | 141.52 | 147.28 | 154.62 |
| Labour costs per hour (USD) | 22.27 | 19.61 | 18.83 | 20.49 |
| Recorded unemployment (%) | 4.72 | 5.03 | 5.38 | 5.26 |
| Current-account balance/GDP | 2.52 | 2.11 | 2.83 | 3.16 |
| Foreign-exchange reserves (mUS$) | 354,902 | 395,155 | 461,186 | 663,289 |

*Source: The Economists, 25th May 2004*

**Questions**

ai) According to the data, which country has higher standard of living in 2003?

Explain how you arrived at your answer. [2]

ii) What does the data suggest about the cost of living in Japan compared with that of United States from 2000 to 2003. [3]

b) Using Table 1 and Table 2, how does the economic growth rate of United

States differ from that of Japan from 2000 to 2003? [3]

c) Does the information provided above explain that the standard of living is higher for US citizens? (6)

d) Use the data provided to discuss the main economic concerns of the US

government. [6]

**Suggested Answers**

**ai) According to the data, which country has higher standard of living in 2003? Explain how you arrived at your answer. [2]**

In 2003, United States has higher standard of living relative to Japan, as evident from the PPP-adjusted GDP per head indicator. (1m) (**over the years from 2000 to 2003, the real per capita income (PPP) for US is higher than Japan)**

PPP-adjusted GDP reflects the relative costs of goods and services in both the countries. GDP per head takes into account population changes. (1m)

**aii) What does the data suggest about the cost of living in Japan compared with that of United States from 2000 to 2003. [3]**

Over the years, the cost of living in Japan is lower, as evident from the consumer prices indicator. Japan is suffering from deflation, whereas United States is faced with moderate inflation. (2m)

Consumer prices have been falling for 4 years in Japan at an increasing rate from 2000 to 2002, after which it slowed down to -0.25%. In contrast, inflation in United States increases at a decreasing rate from 3.37% to 2.28%. (1m)

**b) Using Table 1 and Table 2, how does the economic growth rate of United States differ from that of Japan from 2000 to 2003? [3]**

From 2000 to 2004, the economy of United States has slowed down, the lowest in 2001 with real GDP growth of 0.51%. (1m)

Comparing 2000 and 2003, the economy of Japan has improved. However, her real GDP figures indicate a slowdown of growth in 2001 and this continues into 2002 which register a negative growth rate. (1m)

However, the modest economic growth rate of United States (3.12%) is higher than that of Japan (2.72%) in 2003. (1m)

**c) Does the information provided above explain that the standard of living is higher for US citizens? [6]**

As the real per capita head ($ @ PPP) increases from US$34770 in 2000 to US$37831 in 2003, it thus implies that the purchasing power of the people in the US is increasing which will enable the citizens to have a higher level of material comfort. It thus affirms that the standard of living for the citizens is rising. Furthermore, the labour costs per hour has also increased, which means that the income of the people has risen, enabling them to have a higher purchasing power.

However, a higher recorded level of unemployment from 3.98 percent to 5.99 percent will mean that not all US citizens are enjoying a higher level of income as there is a higher number of people who are unable to enjoy the higher level of standard of living. Furthermore, the data fails to provide information on the degree of equality of distribution of income. With a higher level of unemployment, it is likely that the economy has a high level of inequality of distribution of income which explains why the real per capita income as an average income figure for the population cannot represent the standard of living of the respective individuals.

The data also fails to reveal the composition of production which will provide information on the level of welfare enjoyed by the individuals. If the country’s production has lesser amount of welfare consumption, it will mean that the people may not have a higher level of material comfort.

Besides this, the data also fail to reveal information about the qualitative aspect of standard of living. The absence of information on the level of stress, working hours and the level of externalities will explain the qualitative aspect of living. Economic indicators like Measurement of Economic Welfare (MEW) and Human Development Index (HDI) will provide information about the level of economic welfare enjoyed by the people and the progress of the well-being of the people.

**d) Use the data provided to discuss the main economic concerns of the US government. [6]**

One of the main concerns of the US government is to reduce its budget deficit. Its budget has moved from a surplus to a deficit of -3.46% of GDP in 2003. The US government may face problems in funding its expenditure plans when using its fiscal policy to stimulate the slow economic growth. Its public debt as a % of GDP has been rising from 57.47% in 2001 to 62.43% in 2003, which may cause financing problems for the government. (2m)

Another source of concern for the US government is the increasing unemployment rate over the years. The government is faced with high and rising unemployment which will worsen the budget deficit as the spending on unemployment benefits. Over this period, labour costs have been rising continuously to a high of US$21.83 per hour in 2003. The high unemployment rate of 5.99% in 2003 if continues would lead to loss of confidence and competitiveness. (2m)

There is inadequate data to decide whether the current account deficit is a main concern as the capital account of the BOP is not given. Data on the changes in exchange rate are also not given. The rising exchange rate could be a contributory cause for the trade deficit. (1m)