

Measuring Economic Performance Using Gross Domestic Product (GDP)

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GDP as a Measure of Economic Performance

Economic communities and the media often measure economic performance using Gross Domestic Product. Economists have equated national development with growth for a long time because they consider closing the significant per capita income gaps between different nations. Despite the considerable changes in the economic landscape within the first fifteen years of the new millennium, the national income gap has continually remained a significant challenge. However, in some nations, including those with huge populations, the citizens have not been able to equate an increase in their nation's GDP to an improvement in their well-being. However, this has led to a dilemma on the possibility of measuring people's welfare or whether it is all impressions and perceptions. Empirical researchers thus emerged with the argument that in a bid to offer a critical incentive, there was a need for formulation of concepts that not only measure gross domestic product but also measures for tracking the progress. Therefore, besides GDP, this paper aims to explore other measures of economic growth within an economy.

Over the previous periods, GDP was a critical indicator for the socioeconomic welfare of the people; this system has no regard for the people's welfare and the environment. Thus, this limitation shows the importance of introducing other indicators for monitoring environmental and social progress. From a broader perspective, the new system aims to measure how society is tackling issues related to inclusiveness and safeguarding the welfare of the current generation without compromising the ability of the future generation to realize their goals and needs. Moreover, Gross Domestic Income only measures income produced within an economy but does not consider receipts from overseas. This is a critical issue considering the possibility of international cash transfers. For instance, Ireland transfers 15% of its primary income abroad. This income only benefits foreigners and not the citizens.

Limitations of GDP and the Genuine Progress Indicator

As a result of these limitations, economists introduced the Genuine Progress Indicator to replace the GDP. It analyses the positives and negatives that characterise [economic growth and development](#). In essence, the GPI provides policymakers with a critically accurate measure of an economy's overall health.

The countries with significantly high levels of Gross Domestic Product are considered to be leading in terms of overall economic activities. However, this does not directly correlate with citizens'. For example, the United States is among the countries with a high GDP ratio across the globe. However, its GDP includes other activities that destroy the natural environment as well as human life. The situation is similar to that of China, which is the leading emitter of toxic CO₂ globally. Although the activities contribute to high GDP levels in China, the Chinese have to contend with demerits such as working and living in a polluted environment.

Thus, besides the GPI, the United Nations formulated the Human Development Index (HDI) to supplement the GDP index. This index considers a country's GDP and adds other components that measure human development, such as decent living, knowledge, and longevity. Thus it is likely to realise that the states that had the highest levels of GDP rank lower in HDI indices. For example, although the United States ranks high in GDP figures, Norway leads in HDI indicators. This is attributable to longer life expectancy in Norway than in the United States. Therefore, despite the fact that GDP is a critical tool for measuring the economic progress of an economy, it has critical limitations that require being supplemented using other indicators such as GPI and HDI.

Economic communities and the media often measure eFor using Gross; economists have Domestic Product (GDP). (U.S. Bureau of Economic Analysis, n.d.) Economists have for a long time equated national development with growth because they consider closing the significant per capita income gaps between different nations. Despite the considerable changes in the economic landscape within the first fifteen years of the new millennium, the national income gap has continually remained a significant challenge. However, in some nations, including those with huge populations, the citizens have not been able to equate an increase in their nation's GDP to an improvement in their well-being. However, this has led to a dilemma on the possibility of measuring people's welfare or whether it is all impressions and perceptions. Empirical researchers thus emerged with the argument that in a bid to offer a critical incentive, there was a need for formulation of concepts that not only measure gross domestic product but also measures for tracking the progress. Therefore, besides GDP, this paper aims to explore other measures of economic growth within an economy.

Social and Environmental Measures of Progress

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Alternative Indicators for Economic Welfare

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References

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