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National Accounting ch. 2 Redo

1. **Summarize the contributions of NIPA**

NIPA stands for National Income and Products Accounts. It is a system of measurements meant to gauge the health of the economy; it gives a “birds-eye view.” This is done by taking national accounts that measure the total value of final goods and services, and the total income earned by producing these final goods and services.

It was first developed in response to the great depression. Policy makers were working with fragmented data, making it difficult to write policies to meet the needs of the great depression. To get that information NIPA was developed. NIPA evolved further with WW2 sparking the invention of Gross National Product (GNP), and Gross Domestic Product (GDP). These metrics helped aid in war planning at the time. Over time NIPA evolved to include other metrics, adapting it to the countries’ ever-changing needs. Some of these are quarterly GDP estimates, inflation-adjusted measures, international trade services, and other specific metrics.

“Without measures of economic aggregates like GDP, policymakers would be adrift in a sea of un-organized data” ("GDP: One of the Great Inventions"). NIPA is now vital for a functioning government. It is a beacon for policy makers providing needed information and direction. It lets them know how past policy has affected the country and how current policy might affect the country.

1. **Explain the measurement problems in NIPA. Why are they becoming more troublesome over time?**

Adding time to any economic model complicates things quickly. A part of the reason for this is how volatile an economy can be. The economy is constantly adjusting. This volatility affects NIPA numbers. Another reason NIPA numbers are inaccurate is due to quality changes in goods.

It is difficult for NIPA to reflect improvements in technology and products over time. For example, if a 2000-dollar laptop were to be purchased today it would be much higher quality than one produced only two or three years ago. The newer laptop would be able to produce more than the older one with its new computing speed, built in AI, better audio equipment, etc. The productivity of newer technology is difficult to measure, and difficult to compare to older technology.

The wide variety of products also makes it difficult to measure NIPA. A cyber truck, although classified as a truck, doesn’t produce in the same way other trucks do. They are not commonly used to go off roading on a ranch to fix a fence. It’s mostly used as a city commuting car, and sparingly at that. Measuring the difference between the productivity of this truck compared to a Ford F150 is doable, but difficult. With the vast quantity of products, it is unfeasible to measure the productivity of a product precisely.

Measuring services over time also creates difficulties, especially when quality is volatile. The quality of government programs such as public education, or health care are examples of this. GDP doesn’t have a system in place to measure the quality of a teacher. A teacher can teach more students, producing more than last year, but what if the quality of education drops. Would that be reflected in how the teacher’s production is measured? How are the changes between the teaching styles measured? These types of questions also come up in the health care system. GDP doesn’t have the systems in place to measure these advances or regressions in quality.

1. **Coyle and Roberts suggest we should collect additional metrics to monitor national welfare. Suggest at least five metrics we should collect. Defend your choices.**

While NIPA is good at measuring aspects of a nation’s economy it doesn’t capture the nation’s welfare in its entirety. Welfare in this case is defined as the health, happiness, and wellbeing of a country. Here are five metrics that can be taken to better understand a country’s welfare.

**a). Distribution of Income**

**Justification:** GDP doesn’t tell us if people on the lower end of income distribution are sharing in growth. It is a flat number for the whole country. “People at the lower end of the income distribution haven't been sharing in the gains of growth for some time” (Coyle). This is because there is much faster growth at the higher income levels.

**Flaws:** Income distribution is difficult to measure accurately. Household dynamics seem to constantly change to the point where it is difficult to define what a household is. It is also difficult to gather data on the individual level because living situations vary.

**Defense:** Even though it is difficult to gather this kind of data the information gained in return adds a new level of understanding. It adds another dimension to GDP growth by including different income brackets.

**b). Amount of Leisure Time**

**Justification:** “Work is not an end in of itself” (Coyle). Over the past 200 years people have decided to work shorter hours. As humanity has grown more capable of providing for itself it can afford to take more breaks.

**Flaws:** This metric is not a good metric by itself. If a nation only focused on increasing leisure time it would reduce the wellbeing of the nation. It could also be viewed as a negative thing. More leisure time means that there is less being produced.

**Defense:** This metric could be considered a direct reflection of work-life balance in an economy. Leisure time that is too high can be a reflection of an economy without enough work. One set too low can reflect an economy that is overworking its citizens, decreasing their life satisfaction.

**c). Years of Education**

**Justification:** Years of education are a good reflection of how well an economy is improving its human capital. It is a gauge of what level a citizen can produce at.

**Flaws:** This metric doesn’t consider the quality of education. Quality of education can vary widely from country to country.

**Defense:** Using this improves the Cobb-Douglas model significantly. It increases the R^2 of the model to around 25% as shown by the hall jones model. While imperfect it is an easy way to improve the measure of human capital.

**d). Crime Rates**

**Justification:** High crime rates prevent economic growth. A level of trust needs to be in place for market interactions to happen and crime is a sign that trust is eroding. Crime also decreases the quality of life for citizens of that country.

**Flaws:** Crime rates are influenced by reporting practices, policing tactics, and socioeconomic factors. These factors tend to vary widely from country to country making rates difficult to compare.

**Defense:** Taking the effort to measure crime rates give policy makers a sense of which laws are working and which ones need to be revised. It also reflects how secure a community is.

**e). Life expectancy**

**Justification:** People generally live longer in countries that are more well-off. They have easier access to life improving capital. Life expectancy also tends to reflect improvements in healthcare, nutrition, environmental quality, and improvements in quality of life in general.

**Flaws:** Life expectancy is influenced by a variety of factors beyond wealth. Factors like genetics, culture, and life-style choices are some examples. Less wealthy countries may also have higher life expectancy due to better health initiatives while others may encourage poor health.

**Defense:** While different factors cause some deviation the correlation between wealth of a nation and health remains strong. This can be seen in a graph comparing life expectancy with GDP. There is a clear positive trend.

A calendar with numbers and colored circles

AI-generated content may be incorrect.

1. **Suppose that Congress sets aside 100 million dollars for information collection at the national level. There are two proposals. The first, improve how NIPA is collected using block-chain and real-time networks, bettering the quality and speed of information collected. Second, create a national dashboard using the metrics you suggested in the previous question without improving information collection. Write an opinion piece to be published in a local newspaper about which option you advocate.**

**NIPA Budget Proposal**

Citizens have a difficult decision on this upcoming ballet. 100 million taxpayer dollars are being spent to get the information policy makers need to make critical decisions. How do we want the money spent? The first option on the ballet is to improve National Income and Products Accounts (NIPA) measurements. NIPA measurements are measures like GDP, National Income, Employment Rates, etc. Passing the bill in favor of this first option improves the accuracy of NIPA measures. The second option is to put that funding towards a dashboard of the previously mentioned additional metrics.

NIPA has provided many important contributions to U.S policy makers. It has helped with the great depression, and other tough time in U.S. history. Allocating more funding to NIPA would help clarify much of the current information. It would reduce data inaccuracies, improve data gathering methods, and enhance conclusions taken from the data.

However, while NIPA provides a good view of how an economy is doing, it falls short in a few ways. NIPA metrics are meant to be used by policy makers. Many citizens may not connect with the current metrics being gathered. It doesn’t seem to concern them, leading to a lack of participation among U.S. citizens. Simply throwing more money to enhance NIPA might not be as beneficial as it seems. “there's real diminishing return to what's happening with the GDP statistics” (Coyle). Allocating money to different areas might be more beneficial. Another problem is that NIPA by itself doesn’t express the quality of life in the U.S. Positive changes in NIPA don’t necessarily mean positive changes for the people. More information is needed.

Putting funding towards new metrics and creating a national dashboard would fill these information gaps. It would also help the U.S. avoid the diminishing returns of GDP statistics. The new metrics would add a lot more clarity to NIPA by gathering data on how citizens are doing. The new policy could also involve citizens more. Australia asked its citizens what they would like to see on a dashboard. Doing this in the U.S. could help citizens be more involved in policy. The dashboard would display the accrued contributions of citizens, helping them to see the difference they make on an individual level. The display could unite citizens in a common goal.

Starting this initiative may be difficult and take time. While some metrics have data gathering tools in place, others would start from scratch. There may also need to be revisions in the data being gathered. Take crime rates for example. Crime isn’t measured the same in every state. As a result, crime rates in different states don’t compare to each other very well. The rest of the new metrics would need similar changes. However, if the bill passed in favor of the new metrics a plan could be implemented to address these needed changes over a few years. Additionally, measuring data in a more consistent way would create improvements in areas other than new metrics. In the case of crime rates, it would create consist measurements between states. This could greatly improve the coordination of policing efforts in the U.S.

Something else to consider is that the new metrics might also create controversy within the dashboard. An increase in the amount of leisure time might cause a decrease in GDP, or the years of education. Another example is if the environment was taken as an additional metric. If resources were mined this would increase GDP but lower an environmental metric. To solve this, it would be a good idea to have a recommended range or goal for each metric. This could help inform citizens of how different metrics relate to each other. A citizens mindset may shift from a good/bad mindset to something deeper.

These policies will have very different long-term consequences. Having a country make decisions based on a few narrow NIPA indicators could be catastrophic. Using the new metrics broadens the view of policy makers, bringing the focus back on the people.

Sources

Coyle, Diane. "Diane Coyle on GDP." *EconTalk*, hosted by Russ Roberts, 28 Apr. 2014, <https://pca.st/z7l9l42e>.