EC1B5 Winter Term 2023-24
Answer Key to Discussion Question 1 (Week 2 Class)

Week 2 class: In week 1, we learnt about how to measure GDP, what is included and excluded from the measure of GDP.

a. Give one example of how a decision of yours or those around you can affect the measured level of GDP.

b. Is GDP a good measure of welfare?

Answer key:

This question is aimed at understanding what GDP measures and how it is related to welfare. There are many decisions made by you or those around you that can affect the level of GDP. For example, eating in or out, doing your own laundry or taking it to a dry cleaner, mothers' decision to stay home or work. Whether to "marketize" certain "production activities" affect the measured level of GDP and could be important for welfare if the opportunity costs of such production activities are different across individuals. For example, if it is cheaper (adjusting for quality) to buy than producing certain products yourself (which includes time cost and input costs) then buying the product increases both GDP and welfare.

Other examples include:
- Eat in or out
- Do own laundry or take outside
- Buy imported goods or goods made in domestic country
- Hire a nanny or ask family members to look after your kids