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“Misleading Indicator” by Megan McArdle

1. During the Great Depression, American economists saw a great exigence for reliable metrics of annual income and economic growth. In 1932, the secretary of commerce hired the economist and statistician Simon Kuznets to create a system of national income accounting. In the following decade, motivated by the need for accurate wartime statistics, Kuznets did substantial work in measurements of output that developed into the modern idea of GDP.
2. While GDP is a good measure of the total market value of all goods and services, it is not an accurate measure of national progress because it does not include numerous components of a nation's welfare. An increase in GDP does not necessarily imply an increase in utility, nor does it account for the destruction of limited natural resources. Additionally, GDP does not indicate the true quality of the goods that have been exchanged. As a result, GDP is a very limited and superficial measure of national progress.
3. McArdle's survey method is arguably the least effective for several reasons; people are prone to bias, their ability to recall the past is notoriously poor, and they do not often know what is important in life. Her proposal of shadow prices is also ineffective because it depends entirely on arbitrary prices that do not account for diminishing marginal utility. I believe that McArdle's composite

gauge method is the most effective because it has the potential to consider indicators of well-being such as education, literacy, and equality of access.

4. For a better indicator of national well-being, I propose a number that is a composite of many factors. These factors will include distribution of wealth, equality of access, and level of education. Each factor will be equally weighted with values determined by the ratio of their actual value to their maximum value. The composite number will be determined by taking the average of these values.

Works Cited

McArdle, Megan. "Misleading Indicator." *The Atlantic*. Atlantic Media Company, Nov. 2009. Web. 03 Feb. 2016.