

Chapter 32

Living standard

Key terms

1. Human Development Index (HDI) : a measure of living standards which takes into account income, education and life expectancy.
2. Genuine Progress Indicator (GPI) : a measure of living standards which takes into account a variety of indicators including income, leisure time distribution of income and environmental standards.
3. Purchasing Power Parity (PPP) : an exchange rate based on the ratio of price of a basket of products in different countries.
4. Gender Inequality Index (GII) : a measure of gender inequalities in terms of reproductive health, empowerment, and labour market participating.
5. Happy Life Expectancy index (HLEI): an index which multiplies life expectancy by a happiness index.
6. Gross National Happiness : a measure of living standard which includes a wide number of indicators including income, psychological well being, education and ecological diversity.

1. Indicators of Living standards

1.1 Human development Index (HDI)

Income : Real GDP
per capital

Education : Average
year of school

Health : Life
expectancy

1.2 Real GDP per head

: Real GDP per head : real GDP divided by the number of population. It reflects real income per person on average.

Limitation of using real GDP as a measure of standard of living

- Not concern distribution of income
- Higher real GDP per capital is caused by higher production of demerit goods
- Not concern on quality of goods and services
- Higher real GDP means higher production and pollution
- Higher real GDP may caused by longer working hours

2. Purchasing power parity (PPP) : is an exchange rate used to compare countries' GDP. PPP exchange rate is based on purchasing power of currencies in their own countries.