Week 2 Recitation

Practice Problems

This week's recitation is focused on GDP, what it measures, what it doesn't measure, how can we compare GDP across time and how can we compare GDP across countries/regions. In order to do that, we are going to use real world data from the World Bank.

1. What is the definition of GDP? Why do we use GDP per capita as a measure of well-being?

   The following table holds information on the country of Hamsterdam:

	Year 1	Year 2
Consumption	$6,000	$8,000
Investment	$3,000	$2,000
Government Spending	$2,000	$2,000
Exports	$1,500	$1,750
Imports	$2,500	$2,750

2. What is the trade balance and GDP of Hamsterdam in year 1? What is the GDP in year 2? Using your results, what is Hamsterdam's growth rate in this period? Would you say they are in a recession or expansion?

3. What are the benefits of using GDP per capita as a measure of well-being, and what are some of the limitations?

4. Can you think of alternative indicators to measure economic activity and well-being?

5. Go to the World Bank database (https://data.worldbank.org/) and click in "Browse by Country". Pick one country (except the United States). In the search bar, look for the following variables and analyze the graphs:

a) GDP in current Local Currency Units (LCU). How did this variable behave during the selected time frame? Is this measure appropriate to analyze changes in the country's production across time?

b) GDP in constant Local Currency Unites (LCU). How did this variable behave during the selected time frame? Is this measure appropriate to analyze changes in the country's production across time? How about to analyze how it compares with other countries?

c) GDP in Purchasing Power Parity (PPP), constant international $. At the top of your graph, click in "Also show", then click in "Similar Values". Is this measure appropriate to analyze changes in the country's production across time? How about to analyze how it compares with other countries? Which countries/regions appear to have similar values to your country of choice?

d) GDP per capita in Purchasing Power Parity (PPP), constant international $. At the top of your graph, click in "Also show", then click in "Similar Values". Are the countries/regions with similar GDP (from your previous graph) also the ones with similar GDP per capita? Why?

e) Choose two other indicators that you believe are interesting to measure well-being and economic activity, and see how they compare with the evolution of GDP and GDP per capita. (Examples: unemployment, life expectancy at birth, mortality rate under-5 years old, CO_2 emissions, primary education completion rate, literacy rate, poverty headcount, Gini index).