

LIVING STANDARDS

5.1.1: INDICATORS OF LIVING STANDARDS:

FOLLOWING ARE THE INDICATORS OF LIVING STANDARDS:

- GDP per head :
- GDP divided by population/a measure based on income
- The Human Development Index: This takes into account income, education and life expectancy
- Individual indicators e.g. number of doctors per head of the population , more doctors per head of the population may indicate better health standards
- The Multidimensional Poverty Index: A survey of households including e.g. lack of sanitation and access to clean water.

Real GDP per head and the Human Development Index (HDI):

GDP:

Discuss whether GDP per head is the best measure of comparative living standards.

[m/j/17-p22-q4d-8m]

why it may be:

- Income / output is an important influence on living standards . income influences the quantity and quality of goods and services people can consume, the healthcare and education they can enjoy
- Higher GDP per head can increase tax revenue which can be spent on items e.g. education which can increase living standards
- GDP per head takes into account the size of the population. it is an average , it is GDP divided by population , a rise in GDP matched by a rise in population would not mean that people are better off
- GDP per head is measured by all countries and so comparisons can be made , and is relatively easy to calculate understand

for why it may not be:

- There are wider/more accurate measures of living standards e.g. HDI which takes into account education/literacy and health/life expectancy
- GDP per head is an average and it does not take into account distribution of income . GDP per head may be high but some people may be poor
- GDP per head does not take into account leisure time. GDP per head may be high but if people are working long hours the quality of their lives may be low
- Increases in output may increase pollution e.g. lower air quality may reduce living standards
- GDP per head may not fully reflect the quality of products produced which may increase even if GDP per head does not change
- GDP per head may not fully reflect the quantity of goods produced due to the existence of the informal economy
- GDP per head does not include safe drinking water which has a significant influence on health

HDI:

Discuss how useful the Human Development Index is in comparing living standards in different countries. [8m]- 0455/23/O/N/12-q6c

Discussion of the usefulness of the Human Development Index:

- GDP per head
- Life expectancy at birth
- Education (adult literacy rate and combined primary, secondary and tertiary enrolment ratios)/expressed in mean years and expected years.

Discussion of other elements that could be considered:

- differences in the distribution of income
- size of the informal/hidden/underground economy
- differences in working conditions • the composition of output
- political/social freedom • other composite measures

5.1.2 COMPARING LIVING STANDARDS AND INCOME DISTRIBUTION:

Measures of wealth and income inequality:

- Economists calculate the percentages of income earned and wealth owned by given proportions of the population.
- Two common proportions are deciles (tenths) and quintiles (fifths)

Reasons for the differences in the living standards and income and wealth inequality:

- **Uneven holdings of wealth:** The assets inherited by different people are different. Also there is a difference in the savings and the entrepreneur skills. Wealth creates wealth, the more you save, the richer you get. Wealthy people can afford to save more, and hence wealthier people become even more wealthier.
- **Difference in the composition of households:** Households with a number of workers are likely to have a higher income than those with one or more workers and a high number of dependents
- **Differences in the ability and opportunity to earn incomes:** Highly skilled workers, with better qualification, are in demand and hence get higher wages. Full time workers earn more than part time workers. Some people may be dependent on state benefits or help from relatives and hence may have relatively low income.

COMPARING LIVING STANDARDS BETWEEN COUNTRIES:

By measuring the real GDP per head

ADVANTAGE:

- It takes into account the differences in the population size and also incorporates adjustments for inflation

DISADVANTAGE:

- It is not a definite way of ascertaining the quality of living standards of people of a country. This is due to difference in the income distribution, the size of the informal economy, working hours and conditions, the composition and the quality of the output and the environmental conditions between countries.
- Different countries measure their output in terms of their own currency initially. The comparison needs to be done on a common unit. In case an unadjusted currency is used, then the comparison may be distorted. This is because the value of a currency may change from an hour to hour basis.

PURCHASING POWER PARITY (PPP)

- The PPP exchange rates are used when comparing countries' GDP.
- PPP is the exchange rate based on the ratio of the price of a basket of product in different countries.
- These use an exchange rate based on the buying power of currencies in their own countries

By measuring the real Human development Index:

- It is a wider measure than real GDP per head.
- Besides including GDP per head, the HDI considers two other indicators of living standards. One is the length of time for which the people can enjoy life, measured as life expectancy at birth. The second is education. This is measured by mean years of schooling and expected years of schooling.
- Countries are categorised into Very high human development, High human development, Medium human development and Low human development.
- The HDI shows that economic growth and human progress may not always match
- HDI does not consider the political freedom and the environment.

- HDI does not consider the differences in life expectancy, education and the differences in income between males and females and between those living in rural and urban areas, among other groups.

By measuring the Genuine Progress Indicator:

- This indicator contains a number of indicators
- It starts with GDP; it then adjusts for income distribution. The poor receive more benefits from a rise in income than the rich, the GPI rises when the poor receive a higher proportion of income and falls when income becomes more unevenly distributed. Then it makes a number of deductions and additions. The items deducted are those that reduce the living standards now or in the future. Items that are added are the ones that are thought to make a positive contribution to the current or future living standards.

Other measures of living standards include:

Gender Equality Index: [GII]:

- This considers gender-based disadvantage in terms of reproductive health, empowerment, and the labour market.
- The health dimension is measured in terms of maternal mortality rate and the adolescent fertility rate.
- The empowerment dimension has 2 measures, namely, the % of seats held by the women in the national parliament and the relative % of men and women with at least a secondary education. Involvement in the labour market is assessed by comparing the labour force participation rates of men and women.

Happy Life Expectancy Index: [HLEI]:

- This measures the degree to which people live long and happy lives.
- It is found by multiplying life expectancy at birth by a happiness index.

Gross National Happiness:

- **This is a measure of living standards which includes a wide number of indicators, including income, psychological wellbeing**

Explain two measures of comparative living standards. [4][M/J/16-P23-Q4B]

- GDP per head :
- GDP divided by population/a measure based on income
- The Human Development Index: This takes into account income, education and life expectancy
- Individual indicators e.g. number of doctors per head of the population , more doctors per head of the population may indicate better health standards
- The Multidimensional Poverty Index: A survey of households including e.g. lack of sanitation and access to clean water.

5.2 POVERTY

DEFINITION OF ABSOLUTE AND RELATIVE POVERTY

Absolute poverty:

Absolute poverty is where people do not have access to basic items, such as food, shelter and clothing and are living on less than e.g. \$1.25 a day

Relative poverty:

Relative poverty is where people are poor relative to other people in the economy, i.e. they have access to fewer goods and services than others. Relative poverty always exists

DIFFERENCE BETWEEN ABSOLUTE AND RELATIVE POVERTY

(A) DISTINGUISH BETWEEN ABSOLUTE AND RELATIVE POVERTY. [4]

[0455_S13_MS_22- Q7Q-4M]

Absolute poverty is where people do not have access to basic items, such as food, shelter and clothing and are living on less than e.g. \$1.25 a day

Relative poverty:

Relative poverty is where people are poor relative to other people in the economy, i.e. they have access to fewer goods and services than others. Relative poverty always exists

THE CAUSES OF POVERTY:

- Unemployment
- Low wages
- Illness
- Age

BOARD QUESTION:

[0455_S19_MS_23-6M-Q2C]

Analyse how long-term unemployment can cause relative poverty.

- Relative poverty is when household income is low compared to the average (median) income in that country, e.g. less than 60% of average income
- Long-term unemployed have very low incomes cannot afford items which average households are able to e.g. adequate housing, healthcare and may depend on government benefits and may be unable to provide children with good education. Children may not be able to take up good jobs , productivity may be lower compared to those who are better educated . Savings will be used up in reducing the ability to escape poverty .Health deteriorates, reducing the ability to find work and depression may occur , reducing the motivation to find work

POLICIES TO ALLEVIATE POVERTY AND REDISTRIBUTE INCOME:

- promoting economic growth,
- improved education
- more generous state benefits,
- progressive taxation and
- national minimum wage.

BOARD QUESTION:

Discuss whether increased spending on education will always reduce absolute poverty [8]

why it might:

- Education may increase labour productivity, and this may raise income, allowing people to buy more basic goods and services
- Education may increase people's skills and qualifications, and this may reduce unemployment and thereby raising incomes
- Education may reduce the birth rate, reducing the dependency ratio
- Education spending creates jobs e.g., teachers, school cleaners

it might not:

- Education may be of poor quality/be in inappropriate areas and so may not increase productivity and so not raise employment and income
- The increased spending on education may be on a small proportion of the population, in which the poor may not benefit
- The increased spending on education may involve an opportunity cost , example, the spending on healthcare may be reduced .
- The spending on other areas may be more effective in reducing poverty e.g. housing provision
- Workers may be better educated but there may still be unemployment if there is a lack of demand in the economy.

Analyse how a reduction in the rate of interest could reduce poverty. [6]

- A lower cost of borrowing may encourage people to take loans and this might lead to an increase in consumer spending, thereby there would be an increase in the total demand, thus encouraging firms to expand
- It may increase employment and raise people's incomes
- It may lower the burden of debt/make it easier to repay loans and may enable the poor to borrow in order to educate their children, set up a business , which can provide an income

**Explain two reasons why a government may want to reduce poverty.[4]
[0455_s18_ms_23-q5b]**

- In order to reduce income inequality to raise living standards
- To increase tax revenue as average incomes / GDP will rise
- To improve the country's HDI / develop the country
- To reduce healthcare expenditure as the poor will be fitter
- To increase labour productivity leading to more output and lower unemployment

Explain two fiscal policy measures that can be used to reduce poverty.

- Rise in government spending on education will make it easier for people to gain better paid jobs
- Rise in government spending on healthcare and providing a basic necessity will increase productivity of workers
- Subsidised / free provision of food, providing a basic necessity will reduce absolute poverty
- Subsidise / free provision of housing, helping those unable to afford housing.
- Increase in state benefits e.g. paying more in unemployment benefit will raise the income of some of the poor
- Use of progressive taxes / reduction of regressive taxes will reduce relative poverty

POLICIES TO ALLIVIAE AND REDISTRIBUTE INCOME:

Explain two ways a government could reduce relative poverty.[4]

0455_s19_ms_22-q5b

- Through progressive taxation / higher direct taxes which takes a higher proportion of the income of the rich
- By reduction of tax on basic foodstuffs / indirect taxes benefiting mainly the poor
- Through state benefits given to the poor, thereby increasing their purchasing power / living standards
- Through education and training of the poor thereby increasing their earning potential
- Through provision of healthcare to the poor, thereby increasing productivity/reducing cost of medication
- Through the provision of subsidies to firms, thereby reducing unemployment / reducing prices

Discuss whether or not a national minimum wage will reduce poverty.[8]

0455_s20_ms_21-Q2D

Why it might:

- If it is set above the equilibrium level, will raise the pay of the low-paid
- It may reduce relative poverty by reducing the gap between high and low income earners
- It may reduce absolute poverty by enabling low paid workers greater access to basic necessities
- It may raise employment, if it motivates workers and raises productivity
 - may raise employment if it increases total (aggregate) demand.

Why it might not:

- It may not have any impact if set below the equilibrium level
- Unemployment may rise as it may increase firms' costs of production
- It will not help the poor who are unable to work
- It may not reduce relative poverty if it results in other workers pressing for, and getting, wage rises to maintain their wage differentials
- If only some receive the minimum wage, then it may not be in poor households.

What is meant by 'redistribution of income'? [0455_s17_ms_22-q4a]-2m

Redistribution of income means taking income from one group e.g. from the rich and giving it to another e.g. to the poor . It means creating greater equality/reducing inequality/reducing gap between rich and poor. It may be achieved by using progressive taxation and state benefits.

5.3 Population

Topic 5.3.1: THE FACTORS THAT AFFECT THE POPULATION GROWTH RATE

Following factors affect the growth of population:

- **Natural increase in population:** When the birth rate is more than the death rate
- **Net immigration:** when more people come into a country to live [immigrant] as compared to those who leave the country to live elsewhere [emigrants]

5.3.2 Reasons for different rates of population growth in different countries

Following are the reasons for the different rates of population growth in different countries:

- Higher birth rate due to greater infant mortality rate, uneducated women, disapproval of family planning, government cash incentive to have children, lack of government help for the sick and elderly.
- Having children is expensive in certain countries as there are legal requirements on educating children. Pension schemes provided by government, sickness and disability benefits help small families survive and do not need the need to have more children to support them
- Healthy diets, relatively higher living standards, high quality health care, less alcohol consumption, good working conditions and country is at peace with other countries has a relatively low death rate
- Higher population in countries resulting from net immigration from other countries where living standards are low, there is no persecution and with no restriction on emigration

To understand the change in population, it is important to study, the relationship between birth rate, death rate and net immigration.

5.3.3 : THE EFFECTS OF CHANGES IN THE SIZE AND THE STRUCTURE OF

- How and why birth rates, death rates and net migration vary between countries. The concept of an optimum population.
- The effects of increases and decreases in population size and changes in the age and gender distribution of population.

Advantages of an increase in population:

- Better use of a country's resources is possible if the population of a country is below the optimum size.
- The size of the markets will increase, and economies should be able to take greater advantage of the economies of scale.
- There may be increase in the factor mobility if the rise has resulted from an increase in the birth rate or immigration.
- When the demand increases, it will stimulate investment, and this may lead to the introduction of new technology.
- A rise in the labour force due to net immigration and in the future caused by a rise in the birth rate. Net immigration will bring in more workers. More children being born will increase the dependency ratio in the short term but will increase the number of workers in the long run.

Disadvantages of an increase in population:

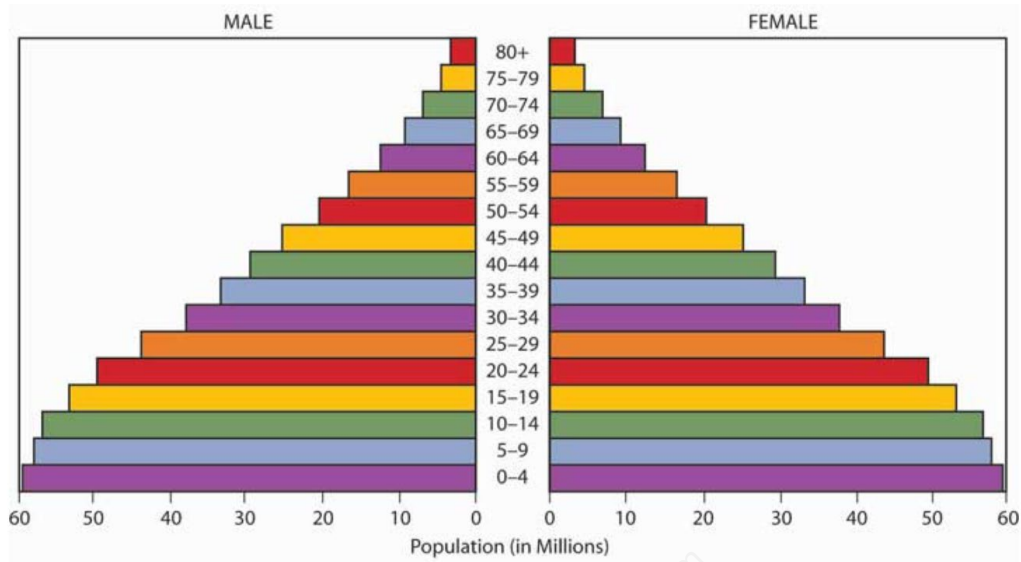
- **Concerns about famine:** With a large population and low productivity, the country is at a risk of not being able to feed more dependents.
- **Restrictions on improvements in living standards:** Resources that could have been used to improve the living standards may have to be devoted to the provision of goods and services for the extra number of dependents in the population
- **Overcrowding:** Increasing population may put pressure on housing and social capital and cause traffic congestion
- **Environmental pressure:** Wild life, habitats may be damaged. There might also be water shortage and depletion of natural resources.
- **Pressure on employment opportunities:** A large number of people of working age lacking in the desired skills will mean that more of available resources need to be devoted to their training.

- **Balance of payment pressures:** More dependents in a population may result in a rise in imports and some products may be needed to be diverted from the export to the home market.

POPULATION PYRAMIDS:

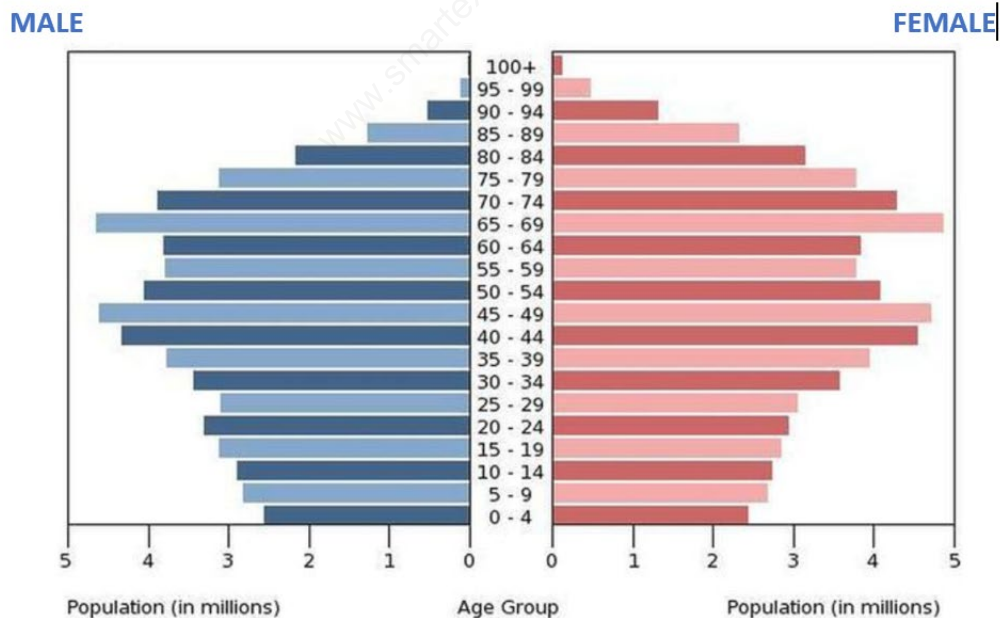
- A population pyramid is a diagram showing the age and the gender structure of a country's population

Pyramid A:



- There is a high birth rate and a high death rate
- There is a large proportion of young population
- Only a small percentage of population reaches the older age group.

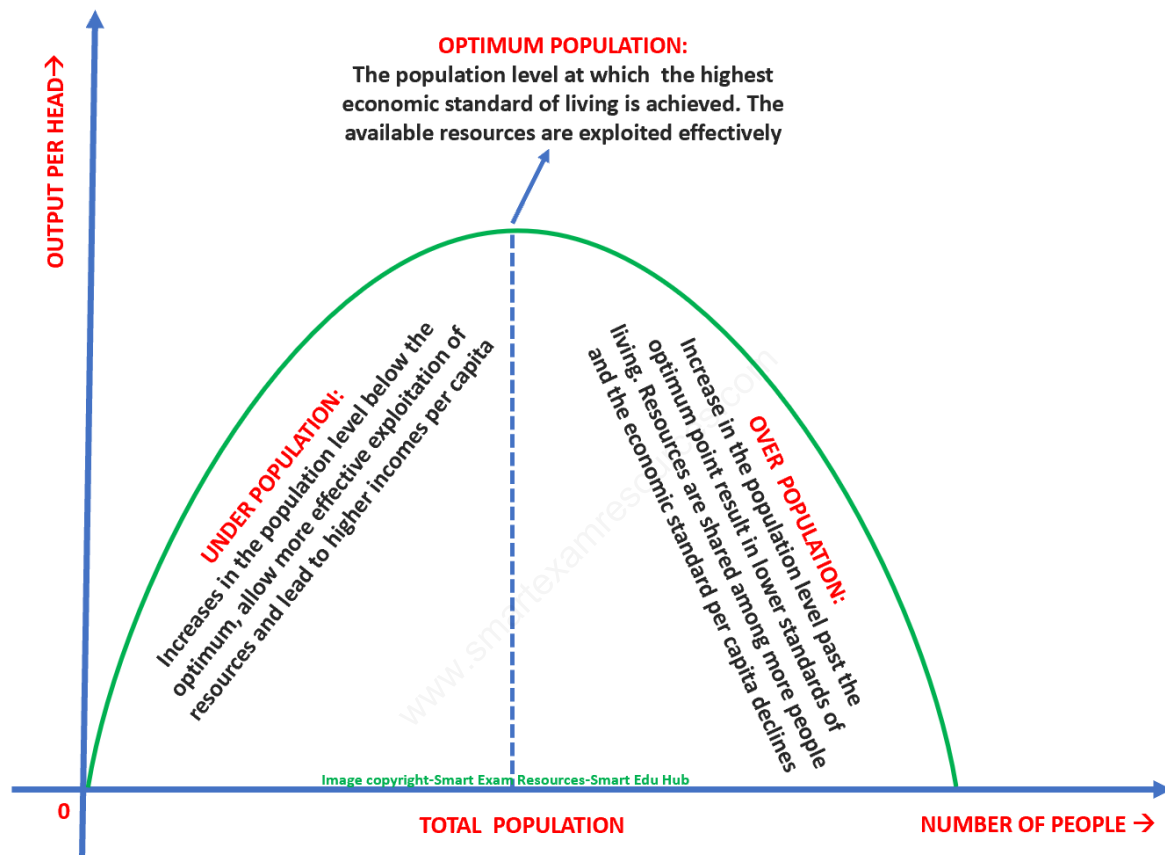
Pyramid B



- There is a low birth rate
- There is a low death rate
- A larger proportion of population lives longer

THE OPTIMUM POPULATION:

- It is the size of the country's population that maximises the country's output per head.
- It refers to the number of people, which when combined with the other resources of land, capital and existing technical knowledge, gives the maximum output of goods and services per head of the population.



WAYS OF REDUCING BIRTH RATE:

- **Improvement of the educational and employment opportunities for women:** Such women are more aware of contraceptive methods, marry later and are likely to restrict their family size, in order to be able to combine raising children with managing work.
- **Better information and increased availability of family planning service:** This will enable many families to limit their family size.
- **Reducing infant mortality rate by providing better health care and nutrition.** This in turn reduces the birth rate because apprehension about the survival of children reduces.
- **Setting up pension and sickness-insurance schemes:** This reduces the need for family support
- **Increasing the cost of having children by raising the school leaving age:** This reduces the need for family support
- **The government may pull away financial support to families with a greater number of children and instead provide incentives to families who restrict the number of children.** The extreme step may be to declare it illegal to have children above a specified number.

THE CONSEQUENCES OF AGEING POPULATION:

- A rise in the dependency ratio
- A change in the labour force
- Higher demand for healthcare
- Greater need for welfare services
- Rise in cost of state and private pensions
- Change in the pattern of demand

WAYS OF COPING WITH AGEING POPULATION:

- **Raising the retirement age:** This will reduce the cost of pensions and increase tax revenue without increasing tax rates.

5.4-DIFFERENCES IN ECONOMIC DEVELOPMENT BETWEEN COUNTRIES

ECONOMIC DEVELOPMENT: It is an improvement in the economic welfare.

CAUSES OF DIFFERENCES IN THE ECONOMIC DEVELOPMENT BETWEEN COUNTRIES: [0455_W20_MS_23.- Q2B]

- **Resources** – land/labour/capital/enterprise affect productive capacity of a country.
- **Income** -enabling people to consume more goods and services
- **Productivity**- making better use of resources
- **Higher international trade / exports**- results in higher output
- **Size of primary sector** - larger primary sectors may mean lower incomes / hard working conditions
- **Saving**- which can influence the proportion of capital goods produced/the extent to which people have a safety net
- **Investment** - which may influence economic growth / make work less physically demanding
- **Education / literacy rates** - influence choices/income/health
- **Healthcare** -affects life expectancy / quality of life

POTENTIAL ADVANTAGES OF ECONOMIC GROWTH TO A COUNTRY:

- Increase in standard of living/quality of life
- Better educational opportunities
- Improved health care
- Increase in incomes
- Increase in employment
- Increase in output/real GDP/economic growth
- Higher ranking in Human Development Index