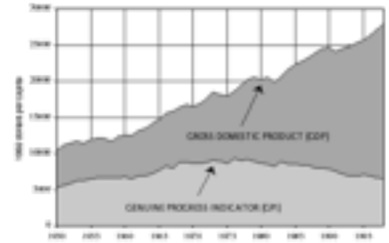
Economics: GDP vs. GPI



The most widely used measurement of any nation's economy is the GDP (Gross Domestic Product). The GDP is the market value of all the goods and services produced in a region, usually a country, in a year.

Some argue that the GDP is not a good indicator of a nation's economy, since it only considers the production of goods and services that can be sold, while ignoring other factors that affect the health, happiness and future of a nation. GPI, or Genuine Progress Indicator, is a measurement that some feel is a more balanced way to measure a nation's status and progress.

"The GDP measures everything, except what makes life worthwhile."
*-Robert F. Kenned*y

GPI is calculated using this formula:

GPI = GDP + Benefits – Environmental costs – Social & economic costs

Benefits include the value of contributions that are not traditionally given a monetary value, such as parenting, caring for elderly parents, or volunteer work. **Environmental costs** are those associated with <u>loss of ecosystem services</u>, for example loss of clean air or water or depletion of nonrenewable resources. **Social and economic costs** are those that negatively impact society and the economy such as costs of crime, drug use, commuting, poor health and dependence on foreign borrowing.

<u>Example: Gaming Casinos</u>

In Canada, many proposed projects have been evaluated using the GPI system. For example, a study was conducted to evaluate the costs and benefits of gaming casinos (legalized gambling) in Nova Scotia. Work with your group members to make an exhaustive list of the benefits and costs of gaming, and write these in the table below.

Benefits	**Costs**

Which of the factors above do you think would be included in calculating GDP? **Circle** these in the table. Which factors would *not* be included? **Underline** these in the chart above.

Example: Oil Spills

Oil spills are another interesting example for comparing the merits of the GDP versus the GPI. For example, the giant spill oil in Valdez, Alaska in 1989, costs millions of dollars in clean-up. This resulted in a surge in the area's GDP. But that does that mean the oil spill was a good thing? Analysis using GPI weighs all costs and benefits associated with the spill. Work with your group to identify all the costs and benefits and write them below:

Economic benefits	Other benefits	Environmental Costs	Social/Economic Costs

Now, take the lists you've created and draw a graph below that shows both the GDP and GPI. Don't worry about actual dollar amounts, just use your best judgment to estimate ***relative*** costs. Be sure to **label** the GDP, the GPI, and the graph's axis.

When performing cost benefit analysis, what are externalities? What are some examples from the Casino example?

What is the difference between market value, non-market value, & contingent value? What are the Pros and cons of each of these?