Title: GDP is a good measure of wellbeing". Discuss critically.

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Question #1: "GDP is a good measure of wellbeing". Discuss critically.

From my perspective, I think GDP is not a good measurement of human well-being. Even though it is a good measure of economic outcomes or economic growths, it does not include any other factors, non-economic aspects, that reflect human wellbeing. Before we are going to judge on if GDP is a good measure of wellbeing, we need to know what actually GDP is first. According to Diane Coyle (2014), Gross Domestic Product (GDP) is a sum of the total national products produced in a given period of time in term of monetary value. This monetary value should be equal to the income or the expense of a certain country (2014). In this case, it leaves out many factors such as inequality, health, education, and other factors out of the calculation. This is where other measures are created and used to measure human' wellbeing such as Genuine Progressive Indicator (GPI), Human Development Index (HDI), and so on. According to Diane Coyle (2014), Social Progress Index (SPG), created by the Social Progress Imperative in Washington DC, is used to look at other factors rather than economic factors to measure a nation's well-being. It studies simple issues that matter human' lives, such as percentage of people who can have access to basic needs such as shelter, food, medication, or educations.

Moreover, according to New Economy Working Group, GDP cannot distinguish between the positive and negative effects of the national outputs, which also counts the harmful products as such as gun sales to children, oil spills, or divorce into the GDP account as well. Unlike other positive products, those type of undesired yields decrease human's well-bing of certain countries, which some activities may deplete the environment and essential resources. Even though the growth of GDP is universally used to determined human well-being in a certain country, unequal distribution of wealth is a part factor that leads GDP not to truly reflect of people well-being. New Economy Working Group points out that a few of wealthy people incomes can have a massive effect of GDP growth while the majority of people are starving to death.

To sum up, even though GDP is depicted as a good measurement of national growth, it is not a good measurement that really reflects human well-being.

Question #2: 'We need austerity to reduce public debt'. Critically evaluate this statement.

From my point of view, I do not totally agree with the statement. As there are many well-known economists advocate austerity to cut down the national debt and sometimes raising taxes during the economic downturn, there are also some respected economists that make arguments against austerity as well. According to Keynes's opinion, he argued that the government's spending should be cut during 'the boom not during the slump' period (Goodwin, 2014).

Keynes suggests that push in austerity may lead the already downturned economy to even worse or into a severe recession, which increases more unemployment rate. The effect of the austerity is determined similar what Keynes calls ' the paradox of thrift' (Goodwin, 2014). For instance, the cut in government's spending will lead to a decrease in aggregate demand, which sends a signal to producer to cut back their productions since the demand is less. In order to cut their productions, firms will need to reduce their workforces as well, which lead to increase in more unemployment rate. Therefore, because more people get laid off and the households' incomes decrease to a certain level, the result leads to further reduction in aggregate demand. This is what Keynes called as " the persistent unemployment", and it will be continuing unless some interventions are made(Goodwin, 2014).

As we see, the effect of austerity would be bad for the whole economy. Mentioned in Keynes' theory, the avocation of austerity leads people to fall into the "fallacy of composition", since they think that the cut in spending and save more would help during the economic downturn (Mitchell, 2010). However, this view tends to be true for an individual but not true for the economy as a whole.

To sum up, even though some economists advocate for the push for austerity during the economic crisis, in fact, the results of the austerity effect is greatly harmful and can lead economies into a severe recession or a new depression.

Question #3: What are the problems with the economic arguments for free trade

Even though free trade is deemed to let trading countries increase more trading activities between nations and gain a great many of advantages such as cheaper labour raw material, and new technologies, there seems to have some problems emerging from free trade as well. Below are a couple problems, which likely to happen during the free trade between nations.

<u>Free trade tends to favour wealthy countries and firms over the other</u>

While free trade lets companies from developed nations to get access to cheap labours or raw materials in the third-world countries, wealthy firms tend to have an opportunity to exploit cheap labour and abundant raw material in the developing countries such as Southeast Asian and African countries, which allows them to reduce a lot of production cost (Krugman, 2012). At the same times, Multinational corporations are able to takeover local companies, which drive out a lot of competition, therefore, wealth is concentrated into fewer giant transnational corporations(Fletcher, 2011).

Because free trade forces each involving country to specialise production based on its comparative advantage, it locks the country to produce just a certain type of goods, especially developing countries (Krugman, 2012). Furthermore, most of the international organisations, which are created at aim to facilitate and compromise the controversial trade and issues between countries, however, are deemed to favour wealthy countries over the poor nations (Stilwell, 2012).

Problem with the assumption that capital, labour, and technology is immobile

Ricardo's assumption assumes that free trade will force countries to rearrange their factors of productions (capital, labour, and technology) to most uses (Fletcher, 2011). What if their most productive uses of those factors are at other countries rather than their home countries and they are actually freely mobile? Therefore, as a result, free trade will move those factors internationally to the best use countries and leave their home countries less advantage.

Problem with so called negative externalities

Even though free trade provides advantages to a certain point between countries involving, it also provides negative impacts directly and indirectly to each nation as well. Negative externalities are the negative impact affecting on the third-party players (society, government, and so on) from economic activities such as pollution, deforestation, and natural resources depletion, etc. When free trade occurs between nations, the negative externalities will impact not only the participating nations but the whole world as well. Therefore, the cost of economic activities will be beared by somebody else not only on the trading participants (Fletcher, 2011).