

Q: GNP as a Welfare Measure

or Problems of using NGP or GNP as a measure of economic welfare
Explain why GNP is not a satisfactory general measure of economic welfare. (Cancelled)

Ans: There are two main problems in interpreting GNP as a welfare measure which are the followings:

(a) Market and Nonmarket transactions;

(b) Externalities and the social value of output.

(c) Market and nonmarket transactions

The most obvious deficiency of the accounts is that GNP exclude nonmarket transactions. The main instance of the exclusion of non market transactions in the accounts is the fact that housewives' services are not counted, since no market transaction is involved in the provision of the services. Even if two people exchange services in a barter arrangement, the output is not measured in GNP. So if these services are counted properly the measured output of GNP will be more. But very often these services are unaccounted and to the extent the GNP is not a true welfare measure of the economy.