Defining Wealth

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What is Wealth?
## Examples of Personal Wealth

### Material Wealth

**Possessions:**
- Cars
- Houses
- Clothes
- Assets

- **Think QUANTITY**

### Non-material Wealth

- Health
- Relationships
- Values
- Beliefs
- Happiness

- **Think QUALITY**
How Do We Measure National Wealth?
“GDP is the market value of all final goods and services produced within a country in a given period of time.”
Breaking down GDP...

- **Market value**: dollar amount
- **Final**: final products (e.g. orange juice, not oranges)
- **Goods**: tangible items
- **Services**: intangible
- **Produced**: made
- **Within a country**: inside a state’s geographic boundaries
- **Period of time**: usually reported quarterly (every three months)
Per Capita GDP

- Total GDP divided by total population
- Literally, GDP “per head”

GDP per Capita: \( \frac{GDP}{\text{Total Population}} \)

- GDP per Capita is sometimes a more accurate representation of a state’s wealth
- Useful for comparisons
What Can GDP Tell Us?
GDP’s Various Uses

• GDP helps us measure the size and health of an economy

• GDP is similar to the vital statistics that doctors use to assess patient health
Calculating GDP

GDP: C + I + G + NX

• **Consumption (C):** Spending by consumers and businesses

• **Investment (I):** Capital, good that can be used to generate more wealth (e.g. bulldozers, software, office buildings)

• **Government Spending (G):** salaries for government employees, defense spending, government investment (excludes social security and unemployment benefits)

• **Net Exports (NX):** Exports - Imports
What is NOT part of GDP?

Unpaid Duties:
- Stay-at-home parents
- Work that is not paid (e.g. helping out at a parent’s office, mowing the lawn, cleaning your room)

Unreported Activities:
- Underground economy (“under the table” work)
- Illegal Activities (narcotics trade, black market arms deals)
Standard of Living

The quantity and quality of goods and services (e.g. healthcare, education, food, housing, material possessions, etc.)
Problems with GDP

GDP doesn’t measure:

- Health of the environment
- Cost of living
- Equity/Income Distribution (Recall the GINI Index)
- Happiness
Alternatives Measures

- **GDP (Purchasing Power Parity)** – Measures relative price level (how much can one dollar buy in that state?)
  - Big Mac Index
  - Starbuck Tall Latte Index

- **Human Development Index** – Measures a country’s development in terms of education, clean water, etc.

- **Gross National Product** – the market value of all goods and services produced by a country’s enterprises

- **GINI Index** – Measures the degree of inequality in a country