

Problems of measuring GDP in different countries

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Economic information must be comparable therefore we have to measure GDP in one currency.

Normally we use the US dollar to measure GDP in different countries. But using exchange rates causes two problems:

- exchange rates can be volatile over a period of time. For example a depreciation in the value of one country's currency against the US dollar might mean that its living standards have decreased, but its economy might actually increase;
- exchange rates are more relevant to products traded between countries than non-traded products. Manufactured products are sold at similar prices in most countries in the world because of international competition. Non-traded or private services usually have big differences in prices.

Purchasing Power Parity is used for comparing GDP by forming a basket of comparable goods and services and looking at its prices in different countries.

The Big Mac Index compares the price of Big Mac in USA and other countries and it helps to define if a currency is under or over-valued against the US dollar.

The World Bank uses a price data for different countries to calculate a PPP-adjusted level of GDP. But there are problems in making international comparisons across countries:

- the difference in types of products;
- quality of goods and services is different and it is reflected in price variations;
- differences in consumption share of each product between countries;
- a large informal or subsistence sector in many countries;
- the quality of economic data varies across countries, because not all nations use sophisticated methods of collecting information.

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