Standards In Taiwan Were Three Times Those In Malaysia. Essay, Research Paper

In 1992 the GDP per head of Malaysia was $2200 and that of Taiwan was $6600. Discuss the basis and confidence with which an economist might conclude that living standards in Taiwan were three times those in Malaysia.

-Different subsidy levels

-Exchange rate differences

-Subsistence economies

-Non-monetary transactions

-Poor bureaucracy

An economist could not confidently conclude that living standards in Taiwan were three times those in Malaysia for a number of reasons:

Different subsidy levels in the different economies can affect the GDP. If the governing body in Malaysia felt the need to subsidise what it thought of as necessities , ie accommodation, energy, and the governing body of Taiwan decided that it was best to leave their provision to market forces then the cost of the commodities would be counted towards the GDP of Taiwan, but not that of Malaysia. Even though Taiwan did not provide greater quantities of the good, it would be counted towards its GDP as a monetary transaction has been made although living standards have not been affected.

The bureaucratic administrative system in Malaysia may not be as reliable as that of Taiwan. This may lead to some figures being dubious and some calculations being misleading. The data collection procedure in Malaysia may not be as exact as Taiwan s which could lead to GDP misinterpretation.

Exchange rates can distort figures, leaving poor reflections of the actual value of the GDP figures. It may be better to use Purchasing Power Parity to give a more accurate direct comparison between the domestic value of the GDP data.

Malaysia may be largely a subsistence economy. If its production of rice, the chief staple, is met by private landowners providing for their families then these figures could not be included in the GDP calculations although there may be more than enough food available. If, to meet domestic demand Taiwan had to import large amounts of rice, then these purchases would count towards the GDP figure.

Trade may take place in the Malaysian economy which would not affect the GDP as a transaction would not be recorded, so a monetary value is not placed upon it. If the Malaysian economy is largely dependant on trade, ie the exchange of rice for wheat, then the GDP will not represent the total value of all the transactions that have taken place in the economy.

There are numerous reasons why an economist could not confidently conclude that living standards in Taiwan were three times those in Malaysia. The GDP figure is not a equitable representation of the standard of living within an economy.