

Cambridge IGCSE · Economics 0455 · Notes

Living standards

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What you need to know

This topic has two syllabus outcomes. In plain words, you should be able to:

1. **Use two indicators of living standards:** real GDP per head and the Human Development Index (HDI).
 - Say what each one is made of: real GDP adjusted for population; and the HDI's three parts (health, education and income).
 - Weigh up the strengths and weaknesses of each as a measure of how well people live.
2. **Compare living standards and the distribution of income.**
 - Explain why living standards differ between countries, and between people and regions inside one country.
 - Explain why income is shared out more equally in some countries than in others, and more equally among some groups than others.

You are not asked to calculate an HDI value yourself, or to use Lorenz curves or other inequality formulas. Poverty, and the wider meaning of economic development, come in later topics.

Understand it

What "living standards" means

A person's **standard of living** is how well they live. Part of it is **material**: the goods and services they can afford, such as food, clothing, housing and transport. Part of it is **non-material**: good health, education, free time, clean air and water, and personal safety.

No single number captures all of this. Economists use **indicators**, figures that track one or more parts of it and that can be compared over time and between countries. The two in this syllabus are real GDP per head, which tracks the material side, and the HDI, which adds health and education.

Real GDP per head

Gross Domestic Product (GDP) is the total value of the goods and services produced in a country in a year; it is also the country's total income. To show how well the **average person** lives, two adjustments are made.

1. **"Real": remove the effect of price changes.** Nominal (money) GDP can rise just because prices rose. Real GDP values output at the prices of a **base year**, so only changes in the **amount** produced show up. With a price index (base year = 100):

$$\text{real GDP} = \text{nominal GDP} \times \frac{100}{\text{price index}}$$

2. **"Per head": share it among the whole population.** Divide by the **total** population, every resident of every age:

$$\text{real GDP per head} = \frac{\text{real GDP}}{\text{total population}}$$

For example, a country with nominal GDP of \$30bn this year, a price index of 150 and 5 million people has real GDP of $\$30\text{bn} \times 100 \div 150 = \20bn , so its real GDP per head is $\$20\,000\text{ million} \div 5\text{ million} = \text{\$4 000}$ at base-year prices.

Changes over time. Real GDP per head rises only if real GDP grows **faster** than the population. A quick rule (see the economic growth note): **growth in GDP per head $\approx$ growth in real GDP – growth in population**. If real GDP grows by 4% and the population by 1.5%, real GDP per head rises by about 2.5%, so average living standards rise. If the population grows faster than output, the average person ends up with less.

Why it is used (advantages).

- It measures the **average income** people have to spend, which decides how much food, housing and other goods they can buy.
- It allows for rising **prices** and a growing **population**, which make total GDP misleading: a large country can have a huge total GDP while each person is poor.
- The figures are **collected often** (usually every quarter) in a similar way in most countries, so changes show up quickly.

What it misses (disadvantages).

- **It is an average.** It says nothing about **how income is shared**. If the gains go mostly to a rich few, GDP per head rises while most people are no better off.
- **Output that is not sold is not counted.** Food a family grows and eats itself (subsistence farming) and childcare done at home are real output, but with no sale there is no value to record. Cash work hidden from the tax authorities (the informal economy) is also missed. Where these are large, GDP per head **understates** what people actually have.
- **It ignores how output is made and what it is.** Longer working hours, more stress, more pollution and congestion can all come with higher GDP. Spending on weapons, on repairing damage, or on harmful goods such as cigarettes adds to GDP without making lives better.
- **It ignores health and education**, except as far as they are bought.
- **Comparing countries is tricky.** Figures are turned into US dollars at the exchange rate, but a dollar buys much more where prices are low, so a poor country can look worse off than it is.

The Human Development Index (HDI)

The HDI is published each year by the United Nations to measure **living standards in a broader way**. It combines three **dimensions**, each given **equal weight**:

Dimension	Indicator used
A long and healthy life	Life expectancy at birth : how many years a newborn baby can expect to live
Education (knowledge)	Mean years of schooling (for adults aged 25 and over) and expected years of schooling (for children starting school now)
A decent standard of living	Gross national income (GNI) per head , adjusted for differences in prices between countries

GNI is GDP plus income earned from abroad, minus income paid to foreign owners; for most countries it is close to GDP. The HDI uses it **per head**, never the total.

The three scores are combined into one HDI value **between 0 and 1**; the closer to 1, the higher the level of human development. The United Nations calls 0.800 or more **very high** and below 0.550 **low**.

Because the HDI has exactly these three parts, an HDI value can change, or differ between two countries, only through **health, schooling or income per head**. A change that touches none of the three, however good it may be, does not move the HDI.

Why it is used (advantages).

- **It is broader than GDP per head.** It shows whether income is turned into long, healthy and educated lives. Two countries with the same income per head can have very different HDI values.
- **Life expectancy and schooling are things nearly everyone values**, and they reflect public services (hospitals, clean water, schools) that GDP per head can miss.
- **It still includes income**, so it does not ignore the material side.

What it misses (disadvantages).

- **It is still built from averages**, so it hides how health, schooling and income are shared. A country where the rich live long lives and the poor do not can still score well.
- **It measures quantity, not quality.** Years spent at school do not show how much children learned; a longer life is not necessarily a healthy one.
- **It leaves out other parts of living standards:** working hours and leisure, pollution and the environment, housing, crime, political freedom and equality between groups.
- **Data are slower and less reliable**, especially in low-income countries, and it is published only once a year, with figures that are often a year or two old.
- **Equal weights are a choice.** Someone else might think health matters more than schooling.

Comparing the two indicators

Both adjust for prices and population, and neither shows how income is shared; only the HDI includes health and education, and only GDP per head is available every quarter. A country can rank **higher on one and lower on the other**. A country with large oil revenue may have a high income per head but short lives and little schooling if the revenue goes to few people or is not spent on public services. A country with modest income may have a high HDI if it spends heavily on health and schools.

Why living standards differ between countries

Think of **income per head** first, then of **how that income is turned into good lives**.

Why income per head differs. Workers earn more where each worker **produces more**: when output per worker (**productivity**) is high, firms can afford higher pay, and the country's income is high. Productivity is higher where workers have:

- more and better **capital** (machinery, transport, power supplies) and up-to-date **technology**;
- more **education and training**, and better health, so they are more skilled and miss less work;
- plenty of **natural resources** to work with, such as fertile land, minerals or oil (although resources alone are not enough without capital and skills).

Income per head is also higher where more of the population **has a job** and where the **population grows more slowly** than output, so each earner supports fewer dependants. Wars and natural disasters destroy capital and drive skilled people away.

Why the same income can give different lives.

- **Public services**: governments that spend more on health care, schools, clean water, sanitation and safe roads raise life expectancy and schooling directly.
- **Prices (the cost of living)**: the same money income buys more where prices are lower; high inflation cuts what incomes can buy.
- **How income is shared**: a more equal country has fewer very poor people for the same average.
- **Non-material factors**: working hours, pollution and crime. Where each hour of work earns more, people can afford to work fewer hours, so richer countries tend to have shorter working weeks. But income per head can also be high because people work very long hours rather than because each hour produces a lot, and then they have less leisure than the figure suggests.

Why living standards differ within a country

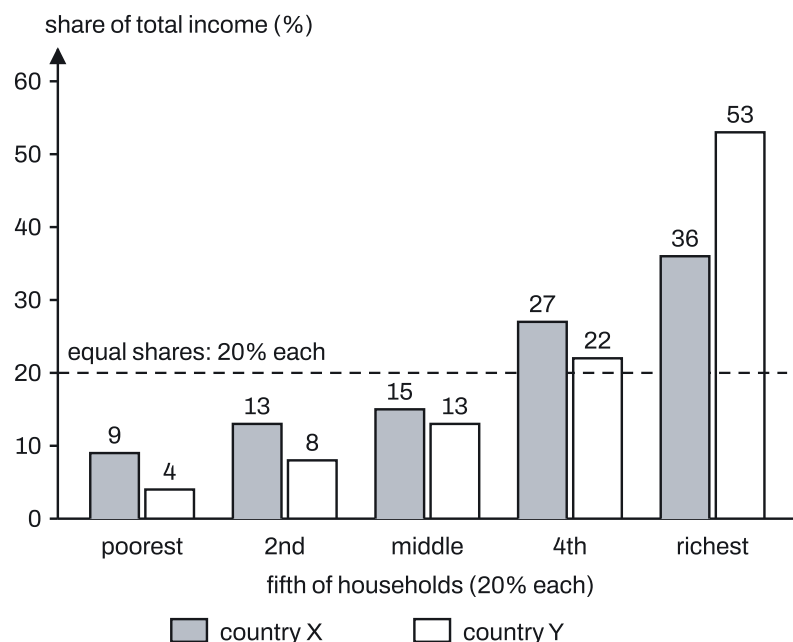
The same reasons apply to groups of people inside one country:

- **Income from work and wealth**: skilled workers and owners of property, shares or savings have more income; the unemployed and low-skilled have less (see the reasons for unequal income below).

- **Where people live:** cities usually offer more jobs, higher pay and more hospitals and schools, but also higher rents, congestion and pollution; rural areas have cleaner air and cheaper housing but fewer services.
- **Age, health and discrimination:** pensioners, people with long-term illness and groups who face discrimination often have lower incomes.

The distribution of income

Income distribution describes how a country's total income is shared among its households. A common way to show it is to rank all households from poorest to richest, split them into **fifths** (each fifth always contains 20% of the households) and give each fifth's **share** of total income.



With perfect equality every fifth would receive 20%; the further the shares are from 20%, the more **unequal** the distribution. You don't need a formula, but one quick way to compare is to divide the richest fifth's share by the poorest fifth's: in country X it is $36 \div 9 = 4$; in country Y it is $53 \div 4 \approx 13$. Income is distributed much less equally in Y.

How to read such data:

- **The smallest gap between the top and bottom shares means the most equal distribution.** Shares moving toward 20% means the distribution is becoming more equal; the top share rising while the bottom share falls means it is becoming more unequal.
- **Shares are not amounts.** A share is a **fraction** of the total; to know how much money a group gets you also need the size of the total. A group's share can rise while its income falls, if the total shrinks.
- **Each fifth always holds 20% of households**, by definition; only the shares change.

Why income is shared unequally within a country.

- **Differences in pay:** wages depend on skills, qualifications and the demand for and supply of each kind of labour; strong trade unions or a minimum wage can raise pay at the bottom.
- **Differences in wealth:** rent, profit and interest from property, shares and savings go to those who are already wealthy, and inheritance keeps the gap going.
- **Unemployment:** households with nobody in work rely on small benefits or none.
- **The tax and benefit system:** a **progressive** tax (the rich pay a larger percentage of their income) with state benefits, pensions and free public services narrows the gap; heavy taxes on basic goods take a larger share from the poor and widen it.
- **Discrimination and unequal access to education** keep some groups in low-paid work.

Countries differ in income distribution because these features differ: how much the state redistributes, how equal access to education is, how concentrated wealth is and how many people are out of work. **Between countries**, incomes differ for the productivity reasons above.

When more income does, and does not, raise living standards

Many questions ask whether some change (a new industry, faster growth, a tax change) will raise living standards or the HDI. Use the HDI's three dimensions as a **checklist** and follow the money.

How more income can raise living standards.

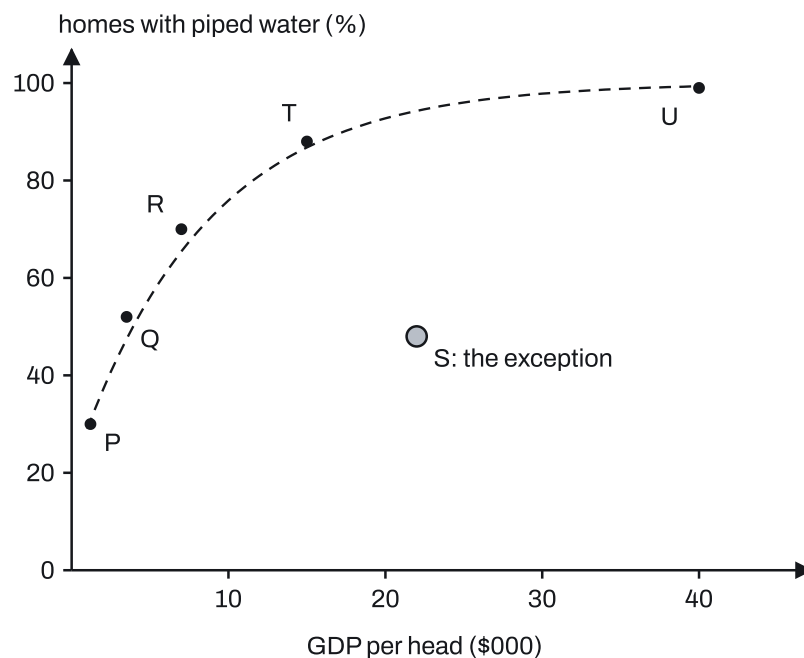
- **Households** with more to spend can buy more and better goods: more nutritious food, better housing with clean water and sanitation, and medicines, so they are healthier and live longer.
- **Families** can afford to keep children at school for longer instead of sending them out to work, and can pay for books, uniforms or private lessons, so years of schooling rise.
- **The government** collects more tax revenue from higher incomes and spending, without raising tax rates, and can build and staff hospitals and schools, which raise life expectancy and schooling.
- **Investment** in new capital and technology raises productivity, which raises incomes again later, and can make work safer and less physically demanding.

Why it might not.

- **Per head:** if the population grows faster than output, income per head falls.
- **Who gets it:** if the extra income goes to a small group, or to foreign owners who take the profits out of the country, most people gain little.
- **What is produced:** more weapons, or more harmful products such as tobacco and alcohol, add to output but not to well-being; extra income spent on such goods can even shorten lives.
- **Prices:** if prices rise as fast as incomes, people cannot buy any more than before.
- **Side effects:** more pollution and congestion, longer working hours and more stress can lower health and leisure.
- **What it replaces:** if work moves from home production (growing your own food) into the market, measured income rises although people may not have more.

Reading data on living standards

Paper 2 often asks you to analyse the relationship between two columns of a table of countries. Plotting them shows how to think about it.



Country	P	Q	R	S	T	U
GDP per head (\$)	1 200	3 500	7 000	22 000	15 000	40 000
Homes with piped water (%)	30	52	70	48	88	99

1. **The relationship is positive (direct):** the higher the GDP per head, the higher the share of homes with piped water.
2. **Evidence, interpreted:** U has the highest of both; P has the lowest of both.
3. **Why:** richer households can afford to connect their homes, and richer countries collect more tax to build water systems.
4. **The exception:** S has the second-highest GDP per head but the second-lowest share of homes with piped water.
5. **Why the exception:** its income may come from one industry (such as oil) and go to few people, so the average hides many poor households; or its government may spend little on water systems.

Relationships can also be **negative (inverse)**: one goes up as the other goes down, such as GDP per head and infant mortality.

Key facts and formulas

There is no formula list for 0455. "Learn it" means you must remember it.

Formula or fact	Status
$\text{GDP per head} = \frac{\text{GDP}}{\text{total population}}$	Learn it
$\text{Real GDP} = \text{nominal GDP} \times \frac{100}{\text{price index}} \text{ (base year = 100)}$	Learn it
Real GDP per head adjusts for inflation (real) and population (per head)	Learn it
Growth in GDP per head $\approx$ growth in real GDP – growth in population	Learn it
HDI dimensions: life expectancy at birth; mean and expected years of schooling; GNI per head	Learn it
HDI value lies between 0 and 1; closer to 1 means higher human development	Learn it
GNI = GDP + income earned from abroad – income paid abroad	Learn it
Perfect equality: each fifth of households receives 20% of total income	Learn it

How to do it

We have tagged 56 questions on this topic (2021–2025): 33 multiple choice on Paper 1 and 23 structured questions on Paper 2. Some multiple-choice questions were set more than once, so 47 are different; repeats are counted below. Five structured questions have parts of more than one type, so the counts add up to 63.

Question type	Questions
Identify the components of the HDI and other living-standards indicators	14
Analyse the relationship between a living-standards indicator and another variable	11
Compare living standards of countries from a data table	9
Explain reasons for differences in living standards	8
Explain real GDP per head: calculation, meaning and weaknesses	7
Discuss whether a change will raise living standards or the HDI	6
Explain or analyse how a factor raises living standards or the HDI	6
Interpret income-distribution data	2

Written answers (marks per command word are in "How to get the marks"). Plan: **point** → **developed chain** → **for Discuss, the other side with new reasons** → **a judgement saying what it depends on**. Explain (4 marks) needs **two developed points**; Analyse (6 marks) about **three short chains**.

1. Identify the components of the HDI and other living-standards indicators (14 questions)

Mostly multiple choice; on Paper 2, "identify two indicators" for 2 marks.

1. **Recall the three dimensions** (see the HDI table in "Understand it"): life expectancy at birth; schooling (mean years for adults, expected years for children); **GNI per head**.
2. **Test each option against that list.** The HDI is built from exactly three dimensions, which is why it is an indicator of living standards in a broad sense: it adds health and education to income, the only thing real GDP measures. An option that adds any other measure, or uses a total instead of a per-head figure, is wrong, however closely it is linked to development.
3. **"What could explain a change (or difference) in HDI?"** The right option improves health, schooling or income per head. **"Which would not explain it?"** Pick the change that touches none of the three.

Variations you will meet:

- **Indicators shared by two indices** (Paper 2, 2 marks): pick measures that appear in both lists in the source. Write "GDP per head", not "GDP": examiners in June 2022 noted that GDP is not an indicator of living standards unless it is per head.
- **Indicators of better health care** (Paper 2, 2 marks): longer life expectancy, fewer babies dying before their first birthday (falling infant mortality), a falling death rate. Take them from the source.

2. Analyse the relationship between a living-standards indicator and another variable (11 questions)

Paper 2 Question 1, 4–5 marks, with a table of countries. Use the five steps shown in "Reading data on living standards":

1. **State the relationship:** positive (direct) or negative (inverse).
2. **Interpreted evidence:** a country highest (or lowest) on **both** measures, or a comparison of two countries. Say "highest", "second lowest"; don't just copy numbers.
3. **Why it is expected:** the economics from "Understand it" (income pays for schooling, food and health care and brings in tax for public services; healthier, better-educated workers produce and earn more). If one variable is part of the HDI, say so: it is one of three equally weighted parts.
4. **The exception,** with the comparison that shows it.
5. **Why the exception:** the other HDI parts can outweigh one; income may be unequally shared; a **percentage** of GDP is not an **amount** (a small share of a very large GDP can be more money than a large share of a small one); quantity is not quality; other influences (diet, war, climate, government choices) matter.

If a column is a **ranking** (1 = best), a lower number means a better position: read the heading before deciding which way the relationship runs.

3. Compare living standards of countries from a data table (9 questions)

Mostly multiple choice (highest or lowest standard of living, or most developed); once on Paper 2 for 4 marks.

1. **If the table gives total GDP and population, divide first** to get GDP per head for each country (\$ billion ÷ million people = \$ thousand per person).

2. **Rank the countries on each living-standards indicator:** higher GDP per head, longer life expectancy, more years of schooling, lower infant mortality and a lower death rate all point to a higher standard of living.
3. **Pick the country that is best (or worst) on most indicators.** If two are level on one measure, let another decide.
4. **Figures about the population itself are not measures of living standards;** use them only to work out figures per head.

Paper 2 (compare two countries, 4 marks). Compare each indicator in a sentence that says which country is better and what that suggests, not just the two figures ("infant mortality is much higher in the first country, which suggests worse access to clean water or clinics"). Point out where indicators **disagree**, and conclude which country seems to have the higher standard of living overall.

4. Explain reasons for differences in living standards (8 questions)

Paper 2, 4 marks (two reasons, each identified and explained); multiple choice.

1. **Pick two different reasons** from "Why living standards differ between countries": income per head (productivity, skills, capital, resources), public services, the cost of living, how income is shared, working hours, pollution, crime. Start with productivity: higher output per worker is the main reason pay and living standards are higher.
2. **Develop each one** with what it lets people do: "higher productivity (1) means firms can pay higher wages, so people can afford more goods and services (1)".
3. **With a source**, use its facts (a high literacy rate, long life expectancy, low population growth) and say how each one shows or causes a higher standard of living.

Variations you will meet:

- **"Apart from X":** leave X out completely, or the point scores nothing.
- Write **GDP per head**, not GDP, and **population growth**, not population (see "Common mistakes").

5. Explain real GDP per head: calculation, meaning and weaknesses (7 questions)

Multiple choice, and short Paper 2 parts (2 marks).

1. **Calculation:** divide by the **whole population**, every resident of every age. If the figures are nominal, first remove price changes with the price index.
2. **Meaning:** "real" adjusts for inflation and "per head" for population, so it shows the average amount of goods and services each person can buy. A rise means a higher material standard of living **on average**. For a 2-mark "explain", say what the two adjustments remove, then link the figure to what people can afford.
3. **Change over time:** if GDP grows faster than population, GDP per head rises; if the population grows faster, it falls.

Weaknesses: use "What it misses" in "Understand it". The one most often tested: output that isn't sold has no recorded value, so subsistence farming and home production are missed.

6. Discuss whether a change will raise living standards or the HDI (6 questions)

Paper 2, 8 marks (Section B, levels) or 6 marks (Section A, up to 4 a side).

1. **Define** the key term in one line (living standards, or the HDI with its three parts).
2. **Why it might**: two developed chains from "When more income does, and does not, raise living standards":
income → better food, housing and health care → longer lives; income or tax revenue → schooling; jobs → incomes.
3. **Why it might not**: two developed chains with **new** reasons: per head versus total, who gets the gains, what is produced, prices, side effects on health and leisure, the informal sector.
4. **Judge**: say what the answer depends on, such as whether output grows faster than population, how widely the gains are shared and what the extra income is spent on.

Variations you will meet:

- **Higher GDP compared with lower GDP**: a bigger total can come from a bigger population, so start from GDP per head.
- **One place compared with another** (a city and the countryside, two regions): compare incomes, services and prices **and** the non-material side (pollution, congestion, space) for **both** places.
- **A new industry or a resource discovery**: cover all its effects (jobs, wages, tax revenue, pollution, where the profits go), not just one. Examiners in June 2023 noted that some answers explained one effect correctly (extra tax revenue spent on education), then discussed only the pros and cons of that education spending and ignored the discovery's other effects.
- **A tax change**: a cut in income tax raises **disposable** income (what people keep after tax), so they can buy more or save; but the government has less to spend on health and education.

7. Explain or analyse how a factor raises living standards or the HDI (6 questions)

Paper 2, 4 marks (two ways, each explained) or 6 marks (analysis).

1. **Run the factor through the checklist**: how does it change **health** (life expectancy), **education** (years of schooling) and **income** (GNI or GDP per head)?
2. **Write each as a chain** of at least two links: "a new bus route to the nearest clinic (1) means villagers reach treatment sooner (1), so fewer die of illnesses that can be treated and life expectancy rises (1)".
3. **For 6 marks** use more than one route: the direct effect on households, the effect through tax revenue and public services, and the effect on productivity and future income.

Variations you will meet:

- **A factor that lowers the HDI** (a war, a disaster, a slump): run the same checklist in reverse, one chain for each part it damages (health, schooling, income).
- **Spending on health or education**: follow the money to what it buys, then to the HDI part it improves; add the productivity → income link for a third chain.

- **Growth of one industry:** ask what it pays, how safe and healthy its work is, and whether it supplies health or education services itself.

8. Interpret income-distribution data (2 questions)

Multiple choice, with a table of income shares by fifth of households. Use "The distribution of income":

1. **The most equal country has the smallest gap between the top and bottom shares** (work out the ratio if it is close).
2. **Over time:** the top share up and the bottom share down means **more unequal**; both moving toward 20% means more equal.
3. **Check every statement against what shares can show.** Shares are not amounts, so they cannot compare how much money any group has; each fifth always contains 20% of the households; a statement about several groups together needs their shares added first.

Worked examples

Example 1

The table shows data for a country.

	Year 1	Year 2
Nominal GDP	\$50bn	\$66bn
Price index (year 1 = 100)	100	120
Population	20 million	22 million

- (a) Calculate nominal GDP per head in each year. **[2]**
- (b) Calculate real GDP per head in year 2, at year-1 prices. **[2]**
- (c) Explain what your answers show about the average standard of living. **[2]**
- (d) Explain one reason why your answer to (c) may not describe the living standards of most people in the country. **[2]**
- (a)** Year 1: $\$50\,000\text{m} \div 20\text{m} = \$2\,500$ (1). Year 2: $\$66\,000\text{m} \div 22\text{m} = \$3\,000$ (1).
- (b)** Real GDP in year 2 = $\$66\text{bn} \times 100 \div 120 = \55bn (1). Real GDP per head = $\$55\,000\text{m} \div 22\text{m} = \$2\,500$ (1).
- (c)** Nominal GDP per head rose by 20%, but prices also rose by 20%, so all of the rise was higher prices (1). Real GDP per head stayed at \$2 500, so the average person can buy the same amount of goods and services as before: the average material standard of living did not change (1).

(d) Real GDP per head is an average: it shows what each person would get if income were shared equally (1). If most of the income goes to a small, rich group, most people receive far less than \$2 500 each, so their living standards are lower than the figure suggests (1).

Example 2

Explain two reasons why income may be distributed more unequally in one country than in another. **[4]**

One country may have a more progressive tax system and more generous state benefits (1): the rich pay a larger percentage of their income in tax, and the money is passed to the unemployed, pensioners and low-paid families, which narrows the gap between top and bottom incomes (1).

In the other country wealth such as land, property and shares may be owned by a small number of families (1); the rent, profit and interest from that wealth go only to them, on top of any wages, so the richest fifth receives a much larger share of total income (1).

(Also creditable: unequal access to education, so some workers lack the skills for well-paid jobs; higher unemployment; weaker trade unions or no minimum wage.)

Example 3

The table shows GDP per head and the average number of hours worked per week in six countries in one year.

Country	GDP per head (\$)	Average hours worked per week
G	62 000	33
H	48 000	36
J	21 000	41
K	9 500	44
L	3 200	47
M	30 000	49

Analyse the relationship between GDP per head and the average number of hours worked per week. **[5]**

There is a negative (inverse) relationship (1): the higher a country's GDP per head, the fewer hours people tend to work each week (1). G has the highest GDP per head and the shortest working week, while L has the lowest GDP per head and the second-longest week (1). This is expected because workers in high-income countries are usually more productive, so each hour of work earns more, and people can afford to take some of their higher living standard as extra free time (1). M is the exception (1): it has the third-highest GDP per head but the longest working week of all six countries (1). Its income may come from long hours rather than high output per hour, or income may be unequally shared, so many low-paid workers need long hours to earn enough (1). (Any 5.)

Example 4

Discuss whether or not the Human Development Index (HDI) is a better measure of living standards than real GDP per head. [8]

The HDI combines life expectancy at birth, years of schooling and GNI per head into a value between 0 and 1; real GDP per head is total output, adjusted for prices, divided by the population.

Why it might be better. Living standards are not only about income. The HDI shows whether people live long, healthy lives and get an education, which real GDP per head ignores unless they are bought. Two countries with the same income per head can have very different life expectancy, because one provides clean water, clinics and schools and the other does not; only the HDI shows that difference (developed point for).

The HDI does not throw income away: GNI per head is one of its three parts, so it keeps the material side while adding health and education. Real GDP per head can also rise because of output that does nothing for well-being, such as weapons; a long life and more schooling are things nearly everyone values (developed point for).

Why it might not be. Both are averages, so neither shows how income, health or schooling are shared. A country where a rich minority lives long and well can score highly on both, so the HDI is no better on inequality (developed point against).

The HDI counts years at school, not what children learn, and length of life, not quality of health; and it still leaves out working hours, pollution and crime. Its figures appear only once a year and are often a year or two old, while GDP data come every quarter, so GDP per head is better for tracking changes quickly (developed point against).

Judgement. The HDI is the better measure of living standards **in a broad sense**, especially for comparing countries whose public services differ, because it adds health and education to income. Real GDP per head is more useful for measuring the material standard of living and for spotting changes quickly. Since both hide inequality and leave out the environment and leisure, the best picture comes from using them together with data on income distribution. Both sides are developed and the judgement says what it depends on: Level 3 (6–8 marks).

Common mistakes

- **Writing "GDP" when you mean "GDP per head".** Reports in June 2021, June 2022 and November 2022 point out that total GDP is not an indicator of living standards: a country can have a high GDP simply by having a large population. Say **real GDP per head**.
- **Using the wrong measure from the source.** In March 2022 some candidates wrote about a low population when the source gave low population **growth**, and high GDP rather than high GDP per head.
- **Copying numbers instead of interpreting them.** Several reports (June 2021, June 2023, June 2025) say that simply quoting figures from the table earns little. "U: \$40 000 and 99%" is description; "U has both the highest GDP per head and the highest share of homes with piped water" is interpretation.

- **Misreading the table.** In November 2021 many candidates misread a ranking in which 1 meant easiest and so described the relationship the wrong way round. In June 2025 some said a country had the highest life expectancy when it had the second highest. Read headings and check "highest" claims.
- **Leaving out the data.** June 2025 noted answers that explained why the relationship should exist but never referred to the table. You need both.
- **Identifying without explaining.** In November 2022 education was often named as a reason for differences in living standards, but the explanation of how it raises them (more skills → better-paid jobs → more income to spend) was often missing.
- **Answering a neighbouring question.** In March 2023 some candidates explained why farmers earn low incomes when the question asked why low incomes lead to low living standards. Underline what the question is about.
- **Picking source words that are not indicators.** In June 2022 some candidates chose words such as "income" or "highly qualified workers" from the source as indicators of living standards.
- **Confusing income with disposable income.** In June 2022 some candidates said an income tax cut raises income; it raises **disposable** income.

How to get the marks

- **Identify** (2 marks): two correct items, one mark each; no explanation needed. If you write more than two, only the first three are considered.
- **Calculate** (1–2 marks): show the division and give units (\$, %, million). Divide GDP by the **total** population.
- **Explain** (4 marks): two points, each identified (1) and developed (1). A list of four reasons with no "because" scores at most 2.
- **Analyse a relationship** (4–5 marks): relationship, interpreted evidence, reason, exception, reason for the exception. Each is a separate mark, and the source must be used.
- **Analyse how** (6 marks): chains of links; each correct link is a mark, and a repeated idea scores once.
- **Discuss** (8 marks): a short definition, two developed points each side, then a judgement saying **what it depends on**. In Section A (6 marks), up to 4 marks a side; a point turned round to argue the other side does not score twice unless it gives a **new reason**.
- **Use the source** whenever the question says so: name the countries, regions and figures, and explain what they show.
- **Multiple choice**: 1 mark each, no penalty for guessing. For HDI questions ask "health, schooling or income per head?"; for tables, work out figures per head first.

Quick check

1. Name the three dimensions of the HDI and the indicator used for each. Which one does real GDP per head also measure?
2. A country has nominal GDP of \$90bn, a price index of 125 (base year = 100) and a population of 15 million.

- (a) Calculate its real GDP per head at base-year prices.
 - (b) Five years earlier, real GDP per head at the same prices was \$5 000. By what percentage has it changed, and what does this suggest about average living standards?
3. In a country the poorest fifth of households received 6% of total income and the richest fifth 45%. Five years later the shares were 8% and 41%.
- (a) Work out the ratio of the richest fifth's share to the poorest fifth's share in each year, and say whether income became more or less equally distributed.
 - (b) Total income fell by 30% over the five years. Did the poorest fifth's income rise or fall?
4. For each change, say which HDI dimension it affects, if any, and whether the country's HDI value would rise or fall: (a) a vaccination programme cuts deaths among young children; (b) the school-leaving age is raised from 14 to 16; (c) a fall in the world price of copper cuts a mining country's national income; (d) a new national flag is adopted.
5. Country V has a higher GNI per head than country W, but a lower HDI value. Suggest two reasons why.

Answers

1. A long and healthy life (life expectancy at birth); education (mean years of schooling for adults and expected years of schooling for children); a decent standard of living (GNI per head). Real GDP per head measures the income (material) dimension.
2. (a) $\text{Real GDP} = 90 \times \frac{100}{125} = 72$, so \$72bn; real GDP per head = $\$72\,000\text{m} \div 15\text{m} = \$4\,800$. (b) $\frac{4\,800 - 5\,000}{5\,000} \times 100 = -4\%$: real GDP per head fell by 4%, so the average person can buy less than five years earlier; average material living standards fell (although it is only an average).
3. (a) Year 1: $45 \div 6 = 7.5$; five years later: $41 \div 8 \approx 5.1$. The gap narrowed and both shares moved toward 20%, so income became **more equally** distributed. (b) Out of every 100 units of the old total, the poorest fifth had 6. The new total is 70, and 8% of 70 is 5.6, which is less than 6: its share rose but its income **fell**.
4. (a) Health: fewer children die, so life expectancy at birth rises and the HDI rises (1). (b) Education: children stay at school longer, so expected (and later mean) years of schooling rise and the HDI rises (1). (c) Income: GNI per head falls, so the HDI falls (1). (d) None of the three dimensions, so the HDI does not change (1).
5. Life expectancy may be lower in V, because its health care, clean water or diets are worse; schooling may be lower, because there are fewer schools or children leave early to work; or its income may be shared very unequally, so many people cannot afford health care or schooling even though the average is high. (Any two.)

Past questions to try

- [0455/13/O/N/24 Q26](#): working out GDP per head from totals to find the most developed country.
- [0455/21/O/N/24 Q2](#): part (b), factors other than unemployment that affect living standards.
- [0455/11/O/N/24 Q24](#): reading a table of income shares for three countries.
- [0455/21/M/J/24 Q2](#): part (d), whether people in high-GDP countries live better than those in low-GDP countries.