

Making international comparisons of living standards - purchasing power parity (PPP)

Gross Domestic Product (GDP) per capita is defined as the total output produced by the domestic economy divided by the population. This gives an approximate measure of the average standard of living in the economy, i.e. the average amount of resources available for each member of the nation to consume. This is the standard measure for making international comparisons of living standards.

To compare this measure internationally, each nation's GDP per capita needs to be converted into a common currency- usually US dollars. However, the official exchange rate is determined by traded goods and services which typically only represent a small proportion of the total produced in a nation. Therefore, \$1 may have a different purchasing power in different countries. For example, the cost of living in developing nations is lower, hence \$1 has higher purchasing power than in the US, meaning that \$1 can purchase more goods and services in developing rather than developed countries. In this case a US dollar measure based on official exchange rates would underestimate relative living standards in these countries.

Purchasing power parity (PPP) measures are converted into a common currency using the relative cost of living rather than the official exchange rate. Countries with a low cost of living relative to the US will therefore see the value of GDP per capita rise in PPP terms, whereas those with a relative high cost of living will see GDP per capita measures fall compared to measures based on the official exchange rate. Table 1 below shows GDP per capita at official and PPP exchange rates for a large variety of countries for 2005.

Africa- GDP per capita (2005)

<i>Country</i>	<i>Official (\$US)</i>	<i>PPP (\$US)</i>
Algeria	3238	7176
Angola	1766	2829
Botswana	6049	10866
Cameroon	941	2284
Chad	586	1744
Ethiopia	127	859
Kenya	559	1108
Morocco	1712	4578
Mozambique	363	1335
Nigeria	645	1188
Senegal	794	1914
South Africa	4993	11346
Sudan	782	2417
Uganda	324	1817
Zimbabwe	674	2413

Advanced economies- GDP per capita (2005)

<i>Country</i>	<i>Official (\$US)</i>	<i>PPP (\$US)</i>
Australia	33526	31318
Canada	34375	34550
France	33855	29019
Germany	33785	30150
Italy	29635	29218
Japan	36599	31406
Portugal	16525	19388
Singapore	26253	28228
Spain	27175	24803
Switzerland	50158	33168
United Kingdom	36429	30277
United States	41976	41571

Latin America- GDP per capita (2005)

<i>Country</i>	<i>Official (\$US)</i>	<i>PPP (\$US)</i>
Argentina	4512	13153
Brazil	4297	8453
Mexico	7183	10090

South Asia- GDP per capita (2005)

<i>Country</i>	<i>Official (\$US)</i>	<i>PPP (\$US)</i>
Bangladesh	401	1998
China	1462	6193
India	687	3316
Indonesia	1233	3940
Malaysia	5110	11160
Pakistan	777	2549
Philippines	1111	4770
Sri Lanka	1111	4145
Thailand	2563	8542
Vietnam	568	2782

Eastern Europe and Russia (2005)

<i>Country</i>	<i>Official (\$US)</i>	<i>PPP (\$US)</i>
Albania	2461	5323
Bulgaria	3328	9205
Czech Republic	11929	19488
Hungary	11059	16627
Poland	7487	13440
Romania	3603	8258
Russia	5459	11209
Turkey	4925	7958

Source: IMF World Economic Outlook database