We all know that there are rich countries and poor countries. What about the United States? It is one of the richest countries in the world with one of the highest standards of living. The Central African Republic is one of the poorest countries in the world. What about Mexico? It is somewhere in between. But the question is how big these differences are between the rich and the poor countries and how we measure these differences.

We are going to measure the differences in living standards by looking at Real GDP per capita. Real GDP per capita is a measurement of the total economic output of a country divided by the number of people and adjusted for inflation. It is used to compare the standard of living between countries and over time. That is a country’s Gross Domestic Product divided by its population. Real GDP per capita captures the average individual’s command over goods and services, which is their purchasing power. Or, put another way, how many goods, which are well pictured here can an average person buy a year using a basket of groceries? So, let us start with the Central Africa Republic. This is a small, landlocked nation in Africa. It is currently suffering under a civil war. It is probably the poorest country in the world. In the CAR an average person can buy just six baskets of goods a year. Now let us consider Mexico, a country you might be a little bit more familiar with. If the average person in the CAR can buy six baskets of goods a year, how many baskets do you think the average person in Mexico can buy? Take a moment, tale a guess; make a mental note of it. We will come back to that.
Now let us look at the largest of the developed nations, the US. How many baskets of goods do you guess that the average American can buy a year? Well, have you got your ideas? Here are the answers. In our depiction, each basket is worth $100 of buying power per year. Using the data from the International Monetary Fund, Real GDP per capita, it is about $600 per year in the Central African Republic. It is just six baskets. In contrast, Real GDP per capita in Mexico is $17800 per year or it is 178 baskets. By the way, both of these numbers have been converted into dollars by taking into account differences in prices in these countries. These are so-called purchasing power parity conversions. This is the most accurate way we know to compare living standards across different countries. Now let us look at Mexico and the CAR again. The average person in Mexico can buy 29 times as many goods a year as the average person in the CAR. As for the average American, he can buy 545 baskets. That is three times more than the average person in Mexico, and 90 times more than the average person in the CAR. So, when we are talking about differences in wealth between countries, we do not mean small differences. It is 10, 20, 50 and sometimes 100 times more in one country than in another. The countries that we might count together in our mind as being poor, like Mexico and the CAR, they are not nearly in the same league. Let us take an example of the prosperity in Mexico, which is much closer to the US than it is to the truly destitute nations, such as the CAR. Here we may ask the questions now: if these huge disparities in wealth have always existed; if the countries are converging; if they are diverging; if it is getting better or worse and if any countries are catching up.