

# Difference Between Cost of Living and Standard of Living

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## Key Difference - Cost of Living vs Standard of Living

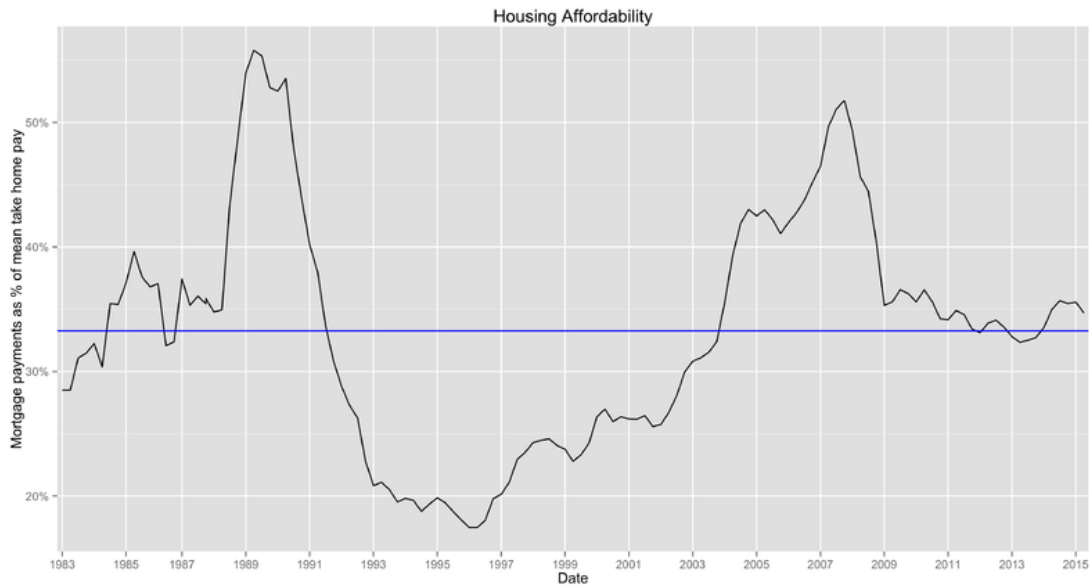
Cost of living and standard of living are two different yet closely related concepts that complement each other. Both are widely used as economic indicators of a particular geographical area. The key difference between cost of living and standard of living is that **cost of living is the cost of maintaining a certain level of living in a specific geographical region** whereas **standard of living is the level of wealth, comfort, material goods and necessities available in a geographical region, typically a country**. The general relationship between cost of living and standard of living can be stated as a positive one since the standard of living is high in areas where there is a high cost of living; however, the contradictions are also not rare.

## What is Cost of Living?

Cost of living refers to the cost of maintaining a certain level of living in a specific geographical region, typically a country. This is one of the primary indicators of economic prosperity in a country and is subjected to change over time. Cost of living is measured by the Cost of Living Index. Cost of Living Index is a speculative price index used to measure the relative cost of living over time and countries. First published in 1968 and available quarterly, it takes into account the price of [goods and services](#) and allows for substitutions with other items as prices vary. Cost of Living Index assists in comparing the cost of living among countries.

Cost of living index for a given country or region is calculated by setting another country's or region's cost of living as the base, which is usually represented as 100. [Demand and supply](#) for resources in a geographical area directly affect the cost of living.

E.g. In April 2017, average house prices in London was £489,400 while it was £265,600 in Bristol. Assuming a similar ratio prevails for the overall cost of living and London taken as the base (100), the cost of living in Bristol is 54% less compared to London. ( $£265,600/£489,400 * 100$ )



**Figure 01: Housing Affordability in the UK**

Purchasing power parity (PPP) is another method of measuring the cost of living utilizing the differences in currencies. Purchasing power parity is an economic theory that states that the exchange rate between two currencies is equal to the ratio of the currencies' respective purchasing power. Therefore, the relative cost of living varies among countries who use different currencies. This is a more complex method of calculating the cost of living compared to the Cost of Living Index.

## What is Standard of Living?

Standard of living refers to the level of wealth, comfort, material goods and necessities available for a geographical region, typically a country. A number of factors are included in standard of living; this list is fairly extensive and most important ones include,

- Real income
- Poverty rate
- Quality and affordability of housing
- Quality and availability of employment
- Quality and availability of education
- [Inflation](#) rate
- [Life expectancy](#)
- Incidence of disease
- Economic and political stability

- Religious freedom

There is no single measure to calculate the standard of living since it is a collection of above indicators. Real income (inflation adjusted) per person and poverty rate are two of the most vital indicators of standard of living. The increase in real income ensures higher purchasing power while the reduction in poverty rate increases the quality of life through equitable distribution of resources. Measures of health such as life expectancy are also considered important.

One of the principle indices of the standard of living is the Human Development Index (HDI), developed by United Nations Development Program (UNDP) which is a composite indicator of life expectancy, income per capita and education. The below table consists of a few examples of HDIs in the world in 2016.

| Very high HDI | High HDI        | Medium HDI         | Low HDI        |
|---------------|-----------------|--------------------|----------------|
| Norway 0.949  | Oman 0.796      | Botswana 0.698     | Angola 0.533   |
| Germany 0.926 | Cuba 0.775      | South Africa 0.666 | Zimbabwe 0.516 |
| Japan 0.903   | Sri Lanka 0.766 | India 0.624        | Mali 0.442     |



**Figure 02: Vienna is ranked as the city with the highest standard of living in 2017 by the Business Insider.**

# What is the difference between Cost of Living and Standard of Living?

| Cost of Living vs Standard of Living   |   |
|--|---|
| Cost of living refers to as the cost of maintaining a certain level of living in a specific geographical region. | Standard of living refers to the level of wealth, comfort, material goods and necessities available for a geographical region, typically a country. |
| Measurement  |   |
| Cost of living is measured by the Cost of living index or Purchasing power parity (PPP).                         | There is no single method of calculating the standard of living as it is a collection of multiple indicators.                                       |
| Location   |   |
| Cost of living varies within any geographical area including city, state, country or region.                     | Standard of living is calculated for each country.  |

## Summary - Cost of living vs Standard Of Living

The difference between cost of living and standard of living is closely related since cost of living is the cost of maintaining a certain standard of living. Cost of living cannot be easily controlled by government intervention since cost of living is mainly dependent on demand and supply for resources in a geographical area. On the other hand, a number of initiatives are taken by governments as well as world organizations such as the United Nations to improve the standard of living in individual countries as well as in the world as a whole.

### References:

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- 2."Standard Of Living." Investopedia. N.p., 22 June 2008. Web. [Available here](#). 16 June 2017.
3. "Human Development Reports." | Human Development Reports. N.p., n.d. Web. [Available here](#). 16 June 2017.

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