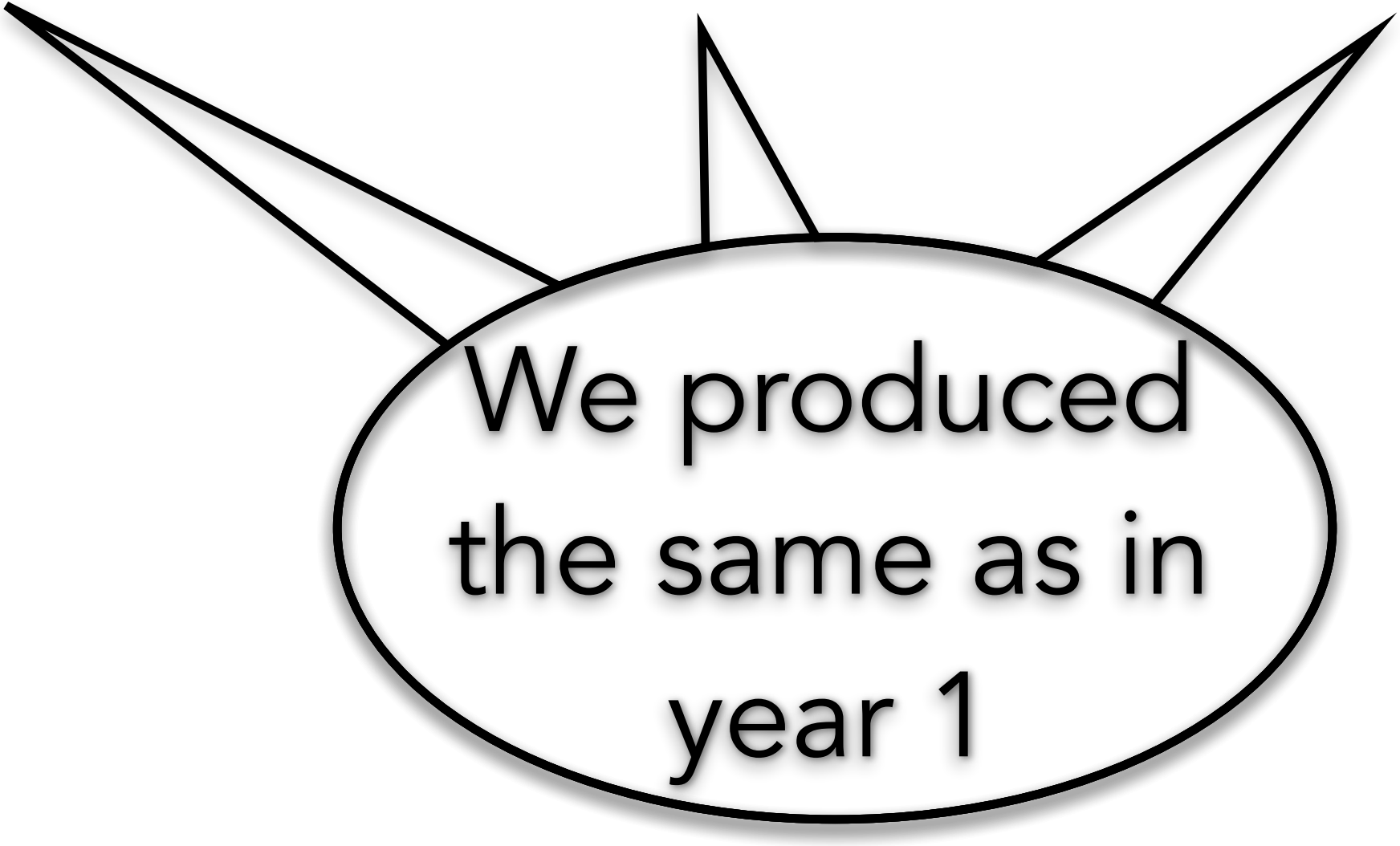
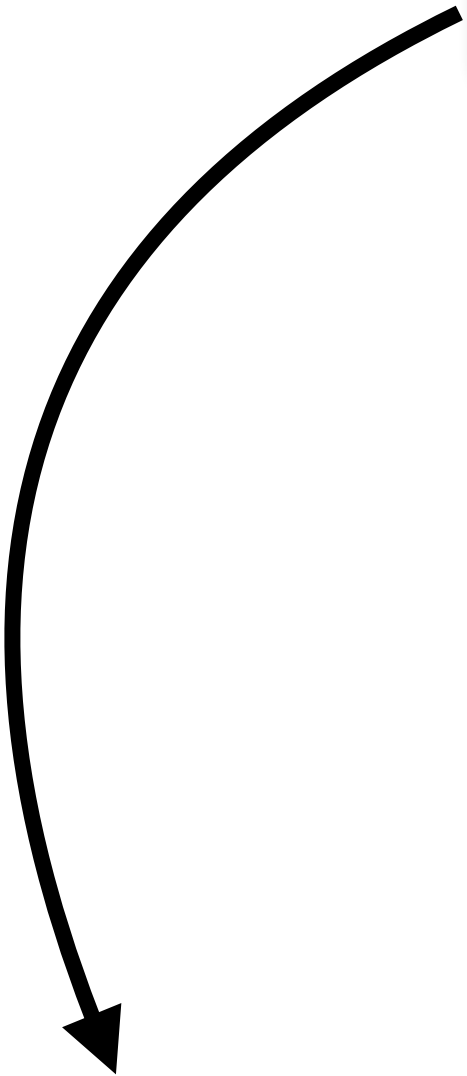


We produced the same as in year 1

In year 2 Prices rise



Prices distort our view of the true value of Production


But Nominal GDP
tells us that production
increased!

262

100

50

10

Year	Price X	Quantity X	Price Y	Quantity Y	Price Z	Quantity Z	Nominal GDP

Year	Price X	Quantity X	Price Y	Quantity Y	Price Z	Quantity Z	Nominal GDP

1	1	100	0.5	50	0.6	10	(1x100)+(0.5x50)+(0.6x10)= 131

Year	Price X	Quantity X	Price Y	Quantity Y	Price Z	Quantity Z	Nominal GDP
1	1	100	0.5	50	0.6	10	(1x100)+(0.5x50)+(0.6x10)= 131

2	**2**	100	**1**	50	**1.2**	10	(**2**x100)+(**1**x50)+(**1.2**x10) = 262

Year	Price X	Quantity X	Price Y	Quantity Y	Price Z	Quantity Z	Nominal GDP
1	1	100	0.5	50	0.6	10	(1x100)+(0.5x50)+(0.6x10)= 131
2	**2**	100	**1**	50	**1.2**	10	(**2**x100)+(**1**x50)+(**1.2**x10) = 262

In year 2 Prices rise

But Nominal GDP tells us that production increased!

Year	Price X	Quantity X	Price Y	Quantity Y	Price Z	Quantity Z	Nominal GDP
1	1	100	0.5	50	0.6	10	(1x100)+(0.5x50)+(0.6x10)= 131
2	**2**	**100**	**1**	**50**	**1.2**	**10**	(**2**x100)+(**1**x50)+(**1.2**x10) = **262**

We produced the same as in year 1

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Year	Price X	Quantity X	Price Y	Quantity Y	Price Z	Quantity Z	Nominal GDP
1	1	100	0.5	50	0.6	10	(1x100)+(0.5x50)+(0.6x10)= 131
2	2	100	1	50	1.2	10	(2x100)+(1x50)+(1.2x10)= 262
3	4	100	2	50	2.4	10	(4x100)+(2x50)+(2.4x10)= 524
4	8	100	4	50	4.8	10	(8x100)+(4x50)+(4.8x10)= 1,048