

Prices distort our view of the true value of production

We produced the same as in year 1

But Nominal GDP tells us that production increased!

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

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

In year 2 Prices rise

But Nominal GDP tells us that production increased!

′ ear	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

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Voor	Price	Quantity	Price	Quantity	Price	Quantity	Naminal CDP
Year	X	X	Y	Y	Z	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