

We must eliminate
the distortion caused
by changing prices

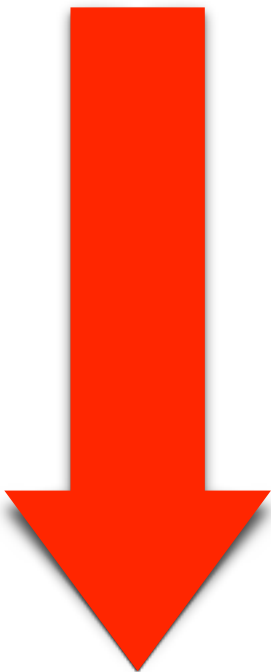
Pretend prices
did not change

Real GDP



We must use prices



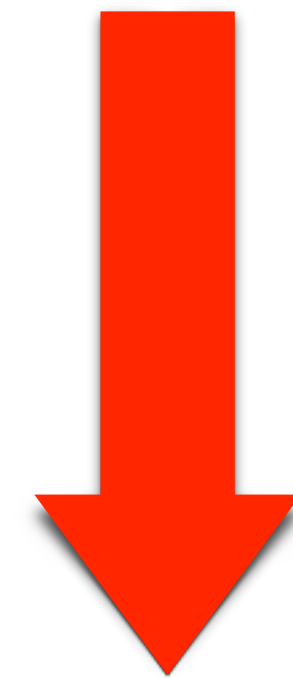


 We **must** use prices

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Pretend prices
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Real GDP

To calculate **Real** GDP first
we choose a "**base**" year

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