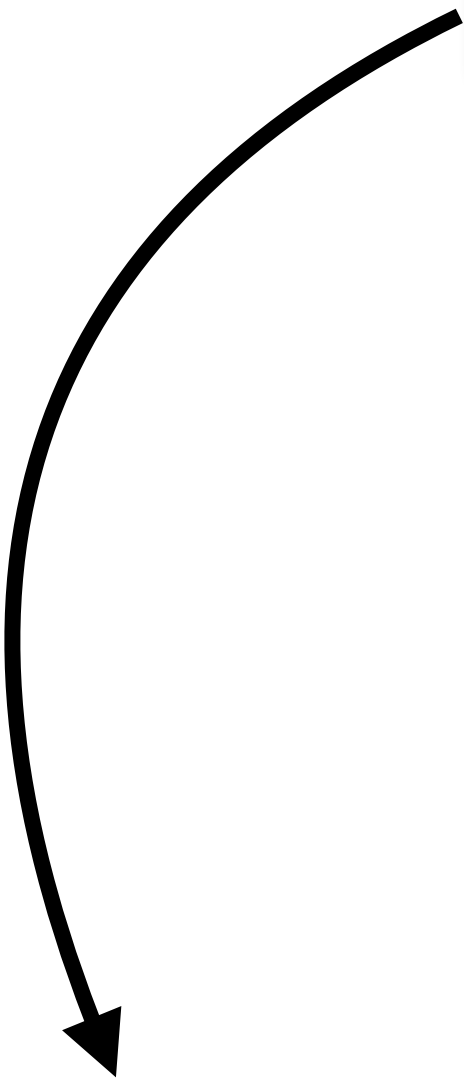



We produced  
the same as in  
year 1

In year 2 Prices rise





Prices distort our  
view of the true  
value of Production

A blue speech bubble with a white background and a blue outline. The bubble has a tail pointing towards the bottom right corner of the image. Inside the bubble, the text "But Nominal GDP tells us that production increased!" is written. "But" and "GDP" are in black, "Nominal" is in blue, "tells us that production" is in black, and "increased!" is in red.

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	$(1 \times 100) + (0.5 \times 50) + (0.6 \times 10) = 131$
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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	$(1 \times 100) + (0.5 \times 50) + (0.6 \times 10) = 131$

2	2	100	1	50	1.2	10	$(2 \times 100) + (1 \times 50) + (1.2 \times 10) = 262$
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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	$(1 \times 100) + (0.5 \times 50) + (0.6 \times 10) = 131$
2	2	100	1	50	1.2	10	$(2 \times 100) + (1 \times 50) + (1.2 \times 10) = 262$

But **Nominal** GDP  
tells us that production  
**increased!**

In year 2 Prices **rise**

Year	Price <b>X</b>	Quantity <b>X</b>	Price <b>Y</b>	Quantity <b>Y</b>	Price <b>Z</b>	Quantity <b>Z</b>	Nominal GDP
1	<b>1</b>	<b>100</b>	<b>0.5</b>	<b>50</b>	<b>0.6</b>	<b>10</b>	$(1 \times 100) + (0.5 \times 50) + (0.6 \times 10) = 131$
2	<b>2</b>	<b>100</b>	<b>1</b>	<b>50</b>	<b>1.2</b>	<b>10</b>	$(2 \times 100) + (1 \times 50) + (1.2 \times 10) = \mathbf{262}$

We produced  
the same as in  
year 1

Prices distort our  
view of the true  
value of Production



Prices distort our  
view of the true  
value of Production

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	$(8 \times 100) + (4 \times 50) + (4.8 \times 10) = 1,048$