We must eliminate the distortion caused by changing prices

Pretend prices did not change

Real GDP

We must use prices

We must use prices

We must eliminate
the distortion caused
by changing prices

Pretend prices
did not change

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	(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