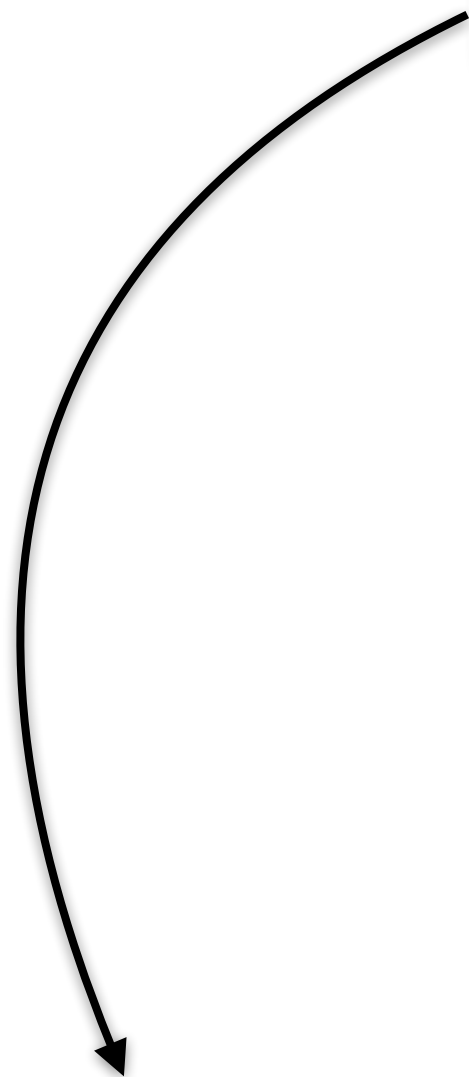
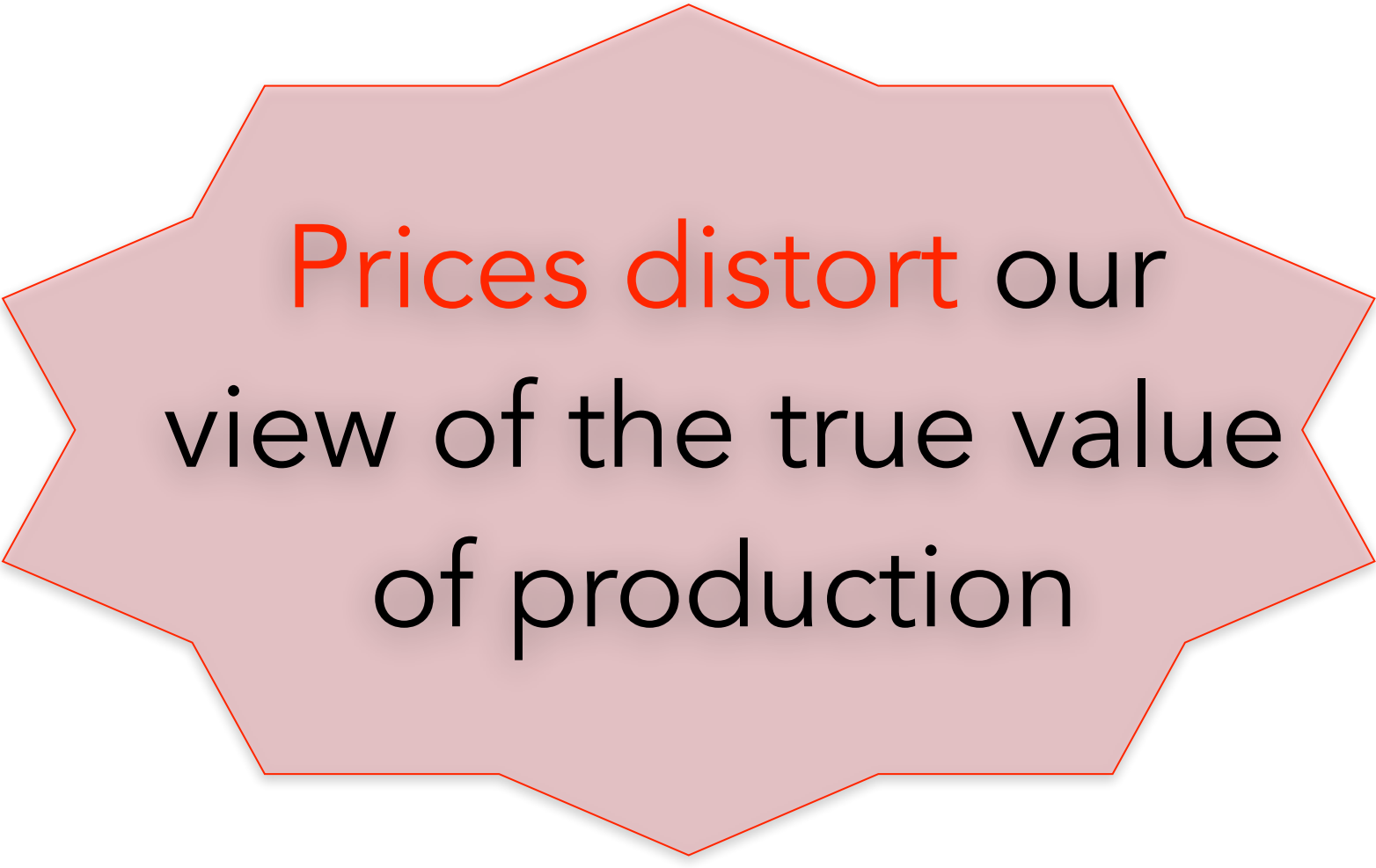


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In year 2 Prices rise





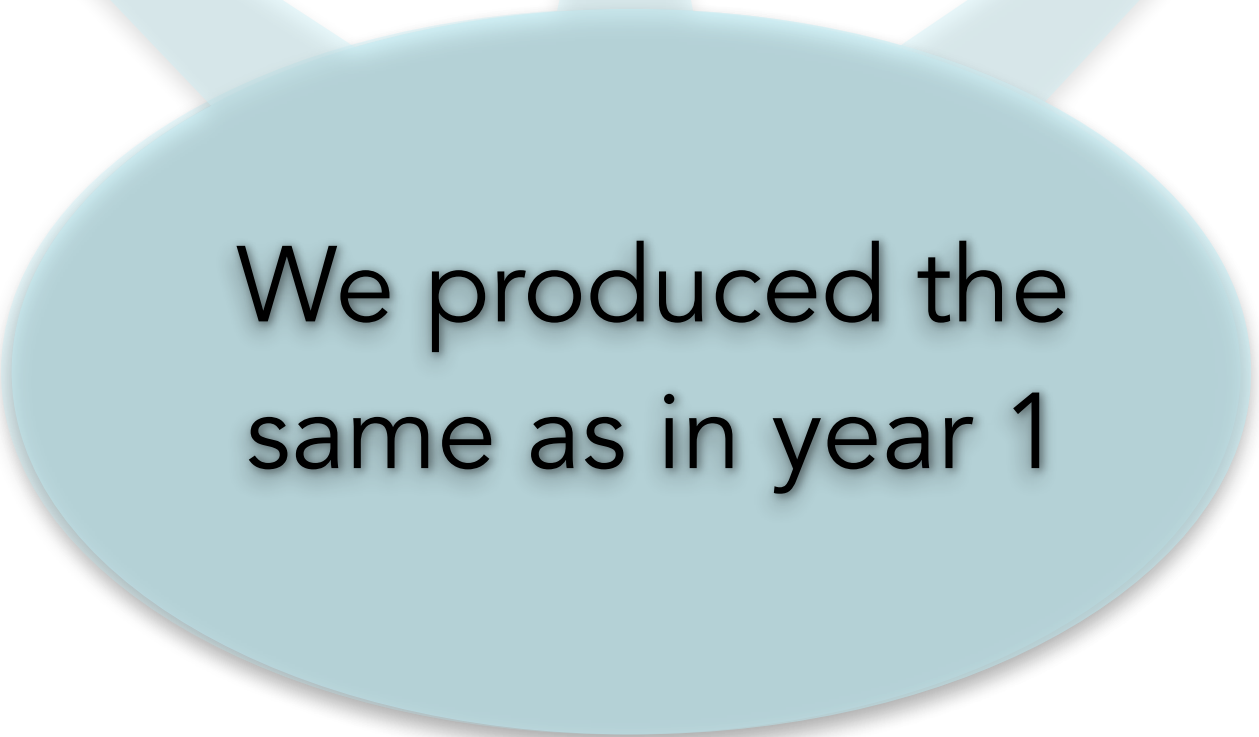
Prices distort our
view of the true value
of production

262


100

50

10



We produced the
same as in year 1



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

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

| Year | Price X | Quantity X | Price Y | Quantity Y | Price Z | Quantity Z | Nominal GDP |
|------|------------|---------------|------------|---------------|------------|---------------|--|
| 1 | 1 | 100 | 0.5 | 50 | 0.6 | 10 | $(1 \times 100) + (0.5 \times 50) + (0.6 \times 10) = 131$ |
| | | | | | | | |

| | | | | | | | |
|---|---|-----|---|----|-----|----|--|
| 2 | 2 | 100 | 1 | 50 | 1.2 | 10 | $(2 \times 100) + (1 \times 50) + (1.2 \times 10) = 262$ |
|---|---|-----|---|----|-----|----|--|

| 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 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 | $(2 \times 100) + (1 \times 50) + (1.2 \times 10) = \mathbf{262}$ |

We produced the
same as in year 1

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