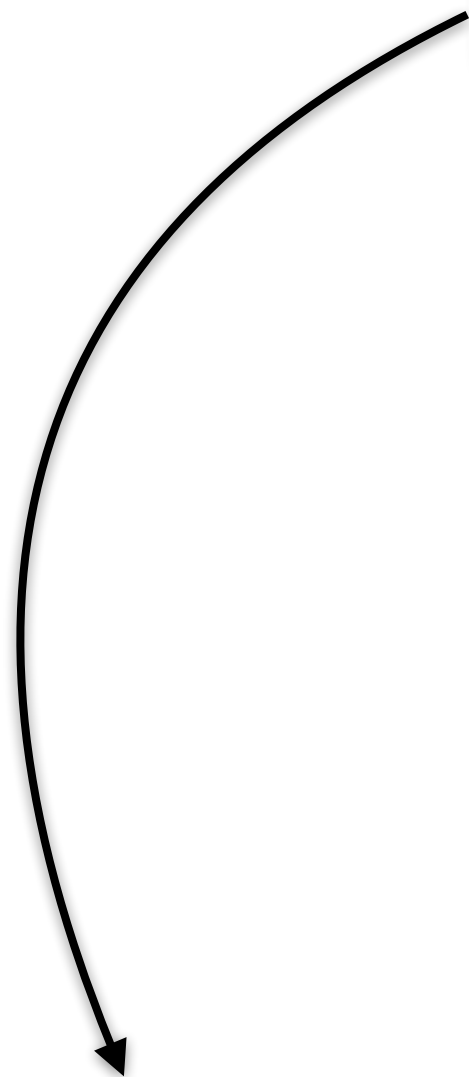
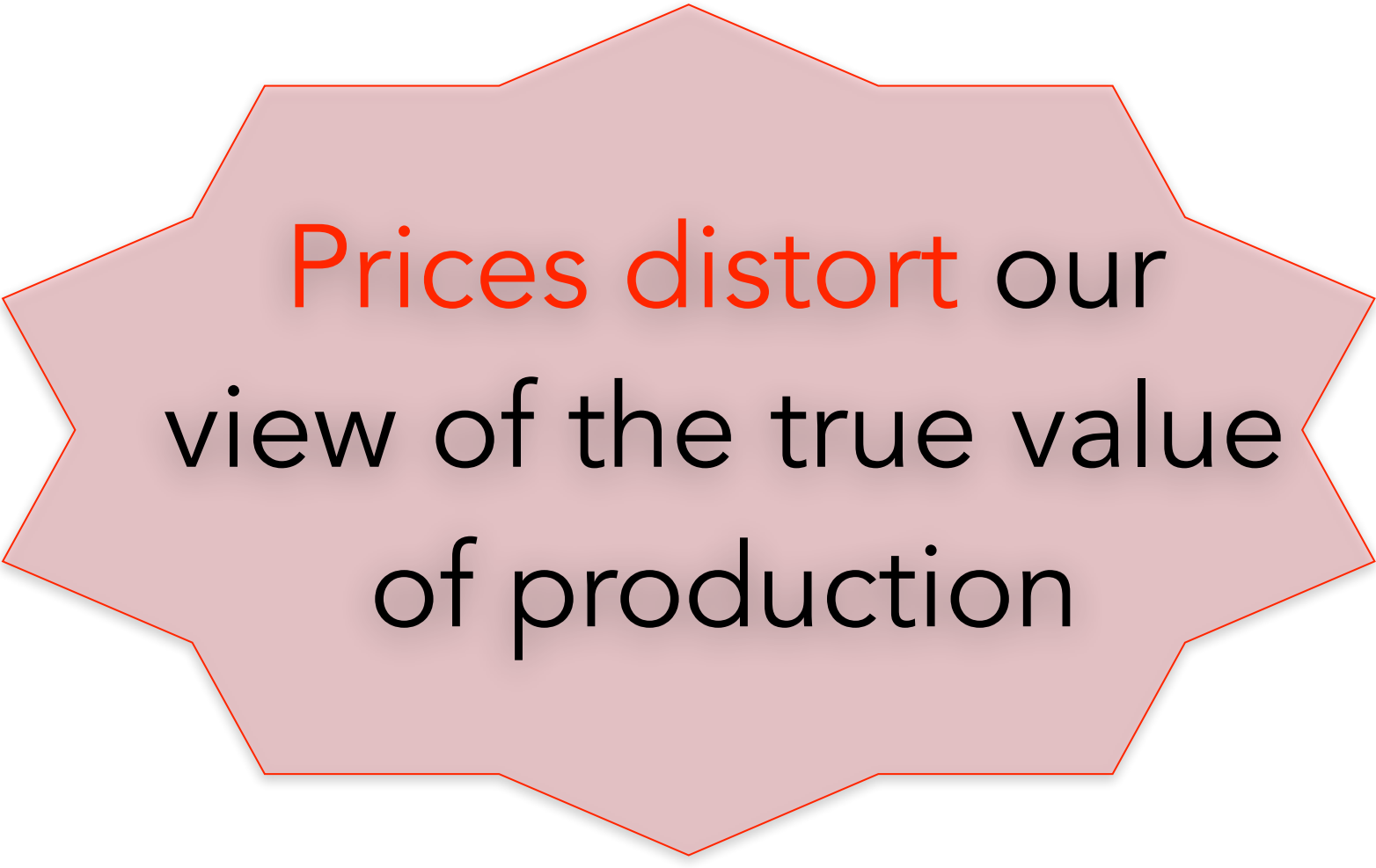





In year 2 Prices rise






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**!



100

50

10


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

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