Nominal & Real GDP

You are an economist who has been asked to calculate your nation's GDP, which produces only three goods/services. Calculate nominal GDP for Year 1 and Year 2. GDP = Price x Quantity.

Year 1 Nominal GDP

Good	Price	Quantity	GDP
Oil changes	$ 15	5	_____
Hamburgers	$ 2	20	_____
MP3 players	$150	3	_____
		TOTAL:	_____

Year 2 Nominal GDP

Good	Price	Quantity	GDP
Oil Changes	$ 18	6	_____
Hamburgers	$ 3	25	_____
MP3 players	$175	5	_____
		TOTAL:	_____

1.   How much did nominal GDP increase from Year 1 to Year 2?   _____

Now calculate Year 2 real GDP using Year 1 as the base year (that means you use Year 1 prices to calculate Year 2's GDP

Year 1 Real GDP

Good	Price	Quantity	GDP
Oil changes	$ 15	5	_____
Hamburgers	$ 2	20	_____
MP3 players	$150	3	_____
		TOTAL:	_____

Year 2 Real GDP (Year 1 base year)

Good	Price	Quantity	GDP
Oil Changes	$____	6	_____
Hamburgers	$____	25	_____
MP3 players	$____	5	_____
		TOTAL:	_____

2.   How much did Year 2's nominal GDP overstate GDP in Year 2 when compared to real GDP?   _____

3.   How much did real GDP increase from Year 1 to Year 2? _____

4.   Why is it important to adjust nominal GDP to real GDP to account for inflation?