

Nominal GDP Vs Real GDP



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Nominal GDP Example

| Year | Bags of Rice Produced | Price per Bag | Nominal GDP |
|------|-----------------------|---------------|-------------|
| 2022 | 100 bags | ₱100 | ₱10,000 |
| 2023 | 100 bags | ₱120 | ₱12,000 |

i In **both years**, the country produced **100 bags of rice**.

But in **2023**, the **price per bag increased** to ₱120.

So, **Nominal GDP went up to ₱12,000**, even though production stayed the same.



- ① The **economy didn't grow in real terms** – only **prices increased**.

This rise in **Nominal GDP** is due to **inflation, not extra production**. Here, **nominal GDP increased by 20%**, but **actual output is the same** – the increase is only due to inflation.

The Illusion of Growth



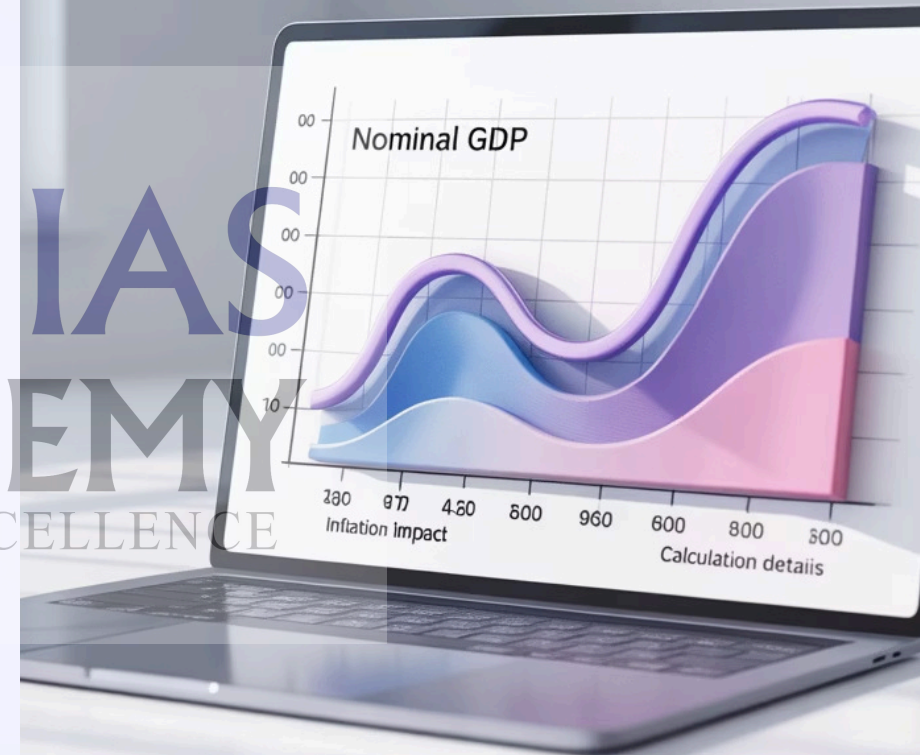
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Nominal GDP

Nominal GDP is the gross domestic product measured at **current market prices**, calculated using **that year's prices** (*without adjusting for inflation*).

i **Nominal GDP = Quantity of Goods × Prices of the Same Year**

So, if prices rise due to inflation, nominal GDP can increase **even if the actual production remains unchanged**.



Key Features of Nominal GDP

1

Includes inflation

Nominal GDP reflects both real output changes and price changes in the economy.

2

Current size measurement

Useful for understanding **current size** of the economy in today's prices.

3

Limited for comparisons

Not suitable for comparing GDP over time (due to price changes).



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Real GDP

Base Year?

Base Year is a **reference year** used to **compare prices**

In 2020; (Current Year Price)

A bag of rice = ₹100

100 bags produced → GDP = ₹10,000

In 2023: (Current Year Price)

A bag of rice = ₹120

100 bags produced → Nominal GDP = ₹12,000

But in 2023; (If we use Base year price)

So, Real GDP = 100 bags × ₹100 = ₹10,000



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Nominal GDP (2023) = ₹12,000

→ includes price rise

Real GDP (2023) = ₹10,000

→ shows actual production

Base Year (2020) helps us **compare fairly** by keeping prices **constant**

₹12,000

Nominal Andl 2023

₹10,000

Real GDP

Base year: 2020

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Real GDP

Real GDP is the Gross Domestic Product adjusted for inflation, i.e., using **constant prices from a selected base year**.

i **Real GDP = Quantity of Goods × Prices from Base Year**

So it tells you **how much actual production** has increased or decreased, **without being distorted by changes in prices**.



Why Real GDP Matters

1 True Growth Measurement

It reflects the **true growth in output**, not influenced by inflation.

2 Year-to-Year Comparison

It is used to compare **economic growth across years**.

3 Economic Reality

Helps understand if people are actually producing/consuming more or just paying higher prices.



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Practical Applications



Economic Policy

Central banks and governments use real GDP to guide monetary and fiscal policy decisions.



International Comparisons

Real GDP allows for meaningful comparisons of economic growth between countries over time.



Business Planning

Companies use real GDP trends to forecast demand and plan investments.

Global Economic Insights

Models

Data

Reports

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Data

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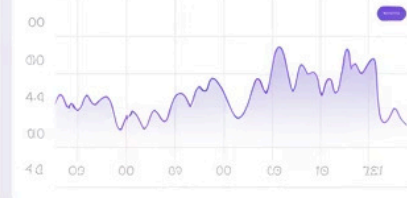
Global Economic Insights

GDP



Global Economic Insights

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Economic indicators

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Economic indicators

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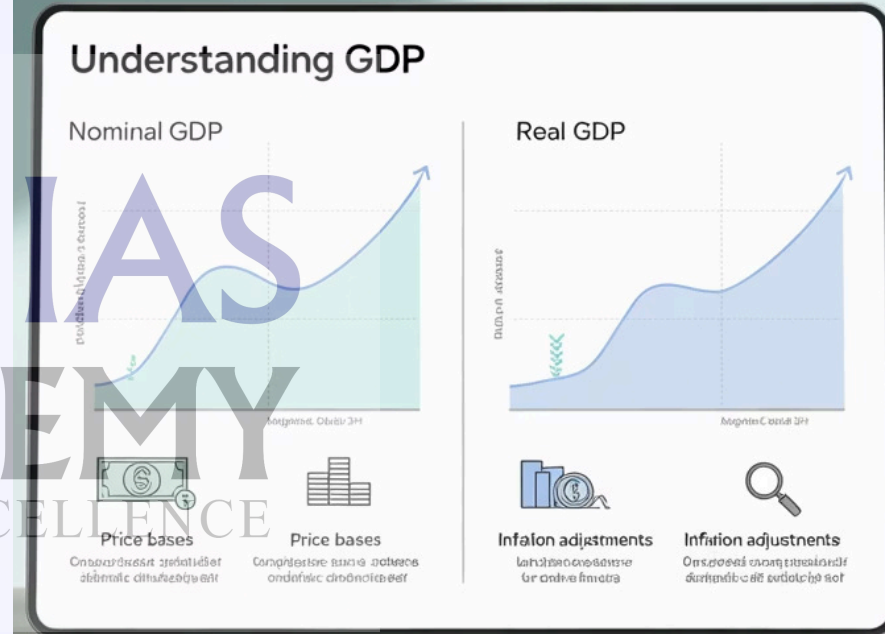
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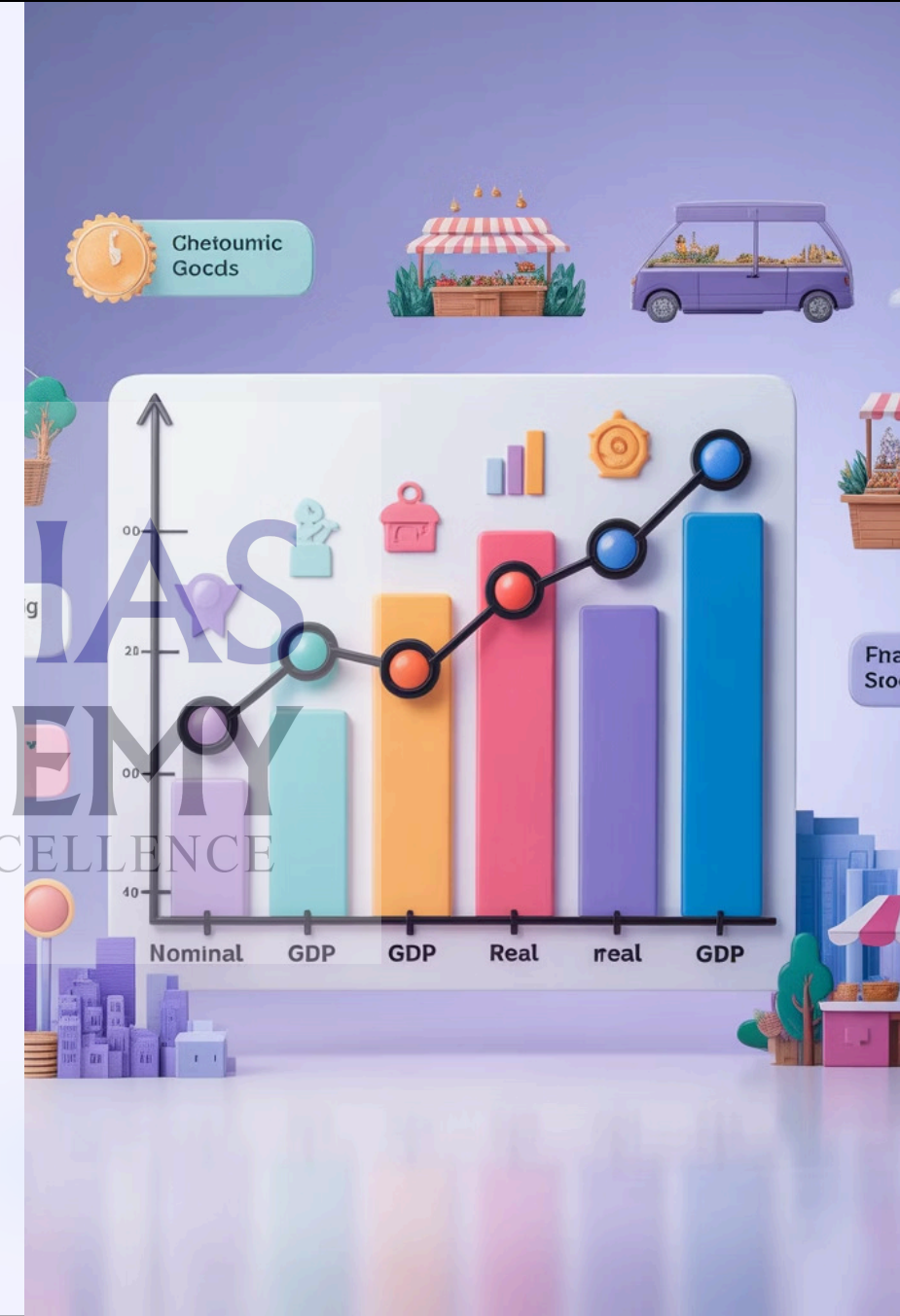
Real GDP vs Nominal GDP

| Feature | Nominal GDP | Real GDP |
|------------------------|---------------------|-----------------------------|
| Price base | Current year prices | Constant base year prices |
| Adjusted for inflation | No | Yes |
| Reflects | Price + quantity | Quantity only (real output) |



Real GDP vs Nominal GDP

| Feature | Nominal GDP | Real GDP |
|----------------|-------------------------------|--------------------------------|
| Comparison use | Same year comparisons | Multi-year economic comparison |
| Purpose | Reflects actual market prices | Shows real growth in output |
| Example | GDP in 2024 at 2024 prices | GDP in 2024 at 2011-12 prices |



Calculating Nominal GDP

Nominal GDP is calculated by multiplying the quantity of goods and services produced by their current market prices.

Identify all goods and services produced

List all final goods and services produced within a country's borders.

Determine current market prices

Find the current year's prices for each good and service.

Multiply quantities by prices

Calculate the total value by multiplying each quantity by its current price.



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Calculating Real GDP

Real GDP requires adjusting for inflation by using prices from a selected base year.

Choose a base year

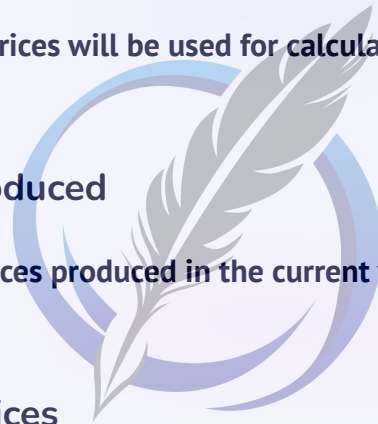
Select a reference year whose prices will be used for calculations.

Identify quantities produced

List all final goods and services produced in the current year.

Apply base year prices

Multiply current quantities by the prices from the base year.



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Inflation's Impact on GDP Measurement

Nominal GDP
Distortion

Real GDP Accuracy

GDP Deflator

It shows **how much of the rise in GDP is due to price increase (inflation)** rather than more production.

$$\text{GDP Deflator} = (\text{Nominal GDP} \div \text{Real GDP}) \times 100$$

It tells us **how much prices have gone up** compared to the base year.

Nominal GDP
= nominal GDP
GDP deflator

Real GDP
GDP deflator

GDP GDP



In 2023:

- **Nominal GDP** = ₹12,000
- **Real GDP** (at base year prices) = ₹10,000

i **GDP Deflator** = $(₹12,000 \div ₹10,000) \times 100 = 120$

This means **prices have increased by 20%** since the base year.

- Is the economy growing **because of more production?**
- Or just because of **higher prices?**

India's 2023 GDP

Nominal GDP



₹12,000P

₹1,0,000

GDP Real Oisfart

₹12,000P

₹1,0,000

GDP Real Oisfart

Summary: National Income Aggregates

Definition

Big numbers showing a country's economic output in a year

GDP

Total value of final goods and services produced within a country

Nominal GDP

GDP at current prices, including inflation effects

Real GDP

GDP adjusted for inflation using base year prices



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