

## CONCEPT: INTRODUCING MACROECONOMIC CONCEPTS – NOMINAL GDP AND REAL GDP

- **Gross Domestic Product** measures the value of goods and services produced by a country in a specific year

☐ One of the most important calculations in this class

☐ If the GDP in the US is greater in Year 2 than in Year 1, we conclude that the economy is \_\_\_\_\_

- **Nominal GDP** is a measure of GDP using \_\_\_\_\_ year prices

**EXAMPLE:** A carpenter builds 100 cabinets. The prices in 2017 are \$1,000 per cabinet. In 2018, the price rises to \$2,000.

2017 Nominal GDP =

2018 Nominal GDP =

- **Real GDP** is a measure of GDP using \_\_\_\_\_ year prices (i.e. prices are kept constant)

**EXAMPLE:** A carpenter builds 100 cabinets. The prices in 2017 are \$1,000 per cabinet. In 2018, the price rises to \$2,000.

2017 Real GDP =

2018 Real GDP =

**PRACTICE:** Simpletown produces Apples and Robots. In Year 1, Simpletown harvested 1,000 apples and built 50 robots. During Year 2, Simpletown had identical production to Year 1. However, during Year 2, prices rose by 50%. Based on this information, which of the following is true?

- a) Simpletown's real GDP was higher in Year 2
- b) Simpletown's real GDP was lower in Year 2
- c) Simpletown's nominal GDP was higher in Year 1
- d) Simpletown's nominal GDP was lower in Year 1
- e) Both (a) and (d) are true