Real gdp and nominal gdp

Finance, Financial Analysis

Name: Instructor: Course: Date: Real GDP and Nominal GDP GDP stands for Gross Domestic Product and refers to the market value of all finished goods and services produced within a given period. Its value is usually measured in monetary terms. For instance, in U. S Nominal GDP dollars depicts the GDP. Nominal GDP illustrates current prices of the kinds goods produced and services provided while; Real GDP indicates costs in reference to a number of base years. The main distinguishing factor between the two is that is that, in real GDP, inflation is taken into consideration when measuring (Boyes, 1991) while, in real GDP, the price remains constant. The examples below illustrate the fundamental difference between measuring Nominal and real GDP. Example 1 Let's presume that in a year that a bond earns 4% at the end of the year.

At the start of the year, one pays $100 and gets 104% at the end of the year. This means the interest rate earned is 4%. This, however, only shows the price attained; It does not account for inflation this is what is an example of a Nominal Interest rate. Example 2 Presuming that, for the year the inflation is 2%, a bulk of goods can be bought at $100 or bought in the next year at $102. If the bond is bought with a 4% nominal interest rate for $100, and sold after a year, $104 is attained; If one buys the good for $102, and has $2 left over.

After factoring in the inflation aspect, the $100 bond will earn us $2 in income; a real interest rate of 2%. The real Interest rate is best summarized by the fisher equation Real Interest Rate = Nominal Interest Rate –Inflation Positive inflation relatively means that the real interest rate is lower than the nominal interest rate as opposed to deflation. Real GDP achieves output in constant prices thus allowing detection of specific production of final good or service. It measures the amount of goods and services after removing the effect of price changes presented in nominal GDP It is crucial to calculate once a year the GDP on the base for all major sectors of the economy. This entails government expenditure, country spending, exports, imports, and investments.

Nominal GDP and real GDP, incarcerate different elements of the alteration. Nominal GDP reveals a change in quantity and change, in prices. Real GDP, alternatively, shows only changes in quantity and does not show the influence of price levels.

From this, we understand that Real GDP is more significant to nominal The Real interest rate tends to be more useful to the average business when comparing total production, rather than the worth of output, over time. In conclusions, the application of gross domestic product has helped countries in a major way. Particularly, the real GDP since it has allowed a measure of economic growth as well enhancing establishing of the overall value of products and services produced in a country in a certain period. . This is done by evaluating trends of GDP over the years. Therefore, real gross domestic product would be the best choice of use for an regular business person. However, the both the nominal GDP and real GDP have failed to illustrate some aspects that are significant in measuring the country’s growth. They include factors like value of life, unemployment rate, peoples living standards, unleveled changes in price and business carried out in the black-market.

Work cited Boyes, W. J., and Melvin, M. Economics.

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