Natural gas: nominal gdp vs. real gdp

Literature, Russian Literature

Discussion why natural gas is valued in real GDP Following the definition of Nominal GDP and Real GDP by Frank and Bernanke , nominal GDP refers to the market value of all final products and services within a specified geographical region in most cases a country, while the Real GDP is used as a macroeconomic measure of a country's output in reference to price changes. From this explanation, we can conclude that products in the international market must be valued in reference with international currencies.

In relation with the discussion by Zhou in 2011 concerning the drop in natural gas futures, where it was to affect the performance of power plants, we see how natural gas prices changes and its effects to different economic sectors. Some of the factors affecting the price are inflation, demand and supply, and taxation. Among these factors, demand and supply is international issues, as well as inflation; therefore we can confidently conclude that natural gas should be measured in real GDP. This will enhance accuracy and reliable calculation of the GDP. If we value natural gas in nominal GDP, we will be using a wrong figure as natural gas is highly affected by international markets of other related products such as oil.

Another reason why I propose that we should value it under real GDP is that USA does produce natural gas. This means that it depends on gas produced by other nation, which is purchased under international terms and conditions governing the production and sale of petroleum products; US does not dictate the price, but purchases in using prevailing prices. This proves that it is under real GDP because of price adjustments.

References

Frank, R. H. & Bernanke, B. S. (2013). Principles of economics. (5th ed.). New York: McGraw-Hill/Irwin.