

LESSON NOTES

Subject: Economics

Year/Level: 12

Week 10

<b>Strand</b>	3	Macroeconomics
Sub Strand	3.1	National Income
Content Learning Outcome	Explore the Real GDP in the context of the Fiji economy.	

Greetings to all...

In our last lesson we looked at Inflation and Price in order to calculate the rate of inflation.

Now we will look at Real GDP and Nominal GDP calculations.

Lesson Notes (Copy in your note book)

NOMINAL VERSUS REAL GDP

**1.Nominal GDP**

Nominal GDP measures the value of output of all final goods and services at **current prices**.

$$\text{NOMINAL GDP} = \frac{\text{Real GDP}}{\text{Base Year Index}} \times \text{Price Index}$$

**2. Real GDP**

Is a measure of output of final goods and services using the prices that prevail in some base year. It is adjusted for inflation. It measures the value of all final goods and services produced by an economy in one year measured in **constant prices**.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{CPI}} \times \frac{\text{Base Year}}{1}$$

Note:

- ⌞ CPI represents Consumer Price Index which is defined as a standard market basket of goods and services purchased by a typical urban family.

(In Fiji, CPI = 100)

**\*CPI or Price index is used to calculate Rate of Inflation.**

**\*Real GDP is used to calculate Economic Growth Rate.**

Now using the notes and your previous knowledge copy and solve the following activities.

**Activity**

Study the table below and answer the questions that follow.

Year	Nominal GDP	Price Index	Real GDP
1	200	100	200
2	325	130	250
3	429	143	300
4	516	150	A

- Give another name for Real GDP
- Calculate the **economic growth rate** in real terms for Year 3. Show ALL workings.
- Complete the above table by calculating the value of **A**. Show ALL working

We will discuss the above activity in the next lesson.

Stay Safe.....