

Midterm Review: Real and Nominal GDP Inflation Rate.

Econ 9: Introduction to Economics

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GDP Deflator

Nominal and real GDP can be used to calculate the “**Price Level**”

The **price level** is a measure of average prices of goods and services in an economy.

GDP deflator is one way of measuring the average price level:

$$GDP\ Deflator = \frac{Nominal\ GDP_t}{Real\ GDP_t} \times 100$$

The price level is useful because it allows us to calculate the **inflation rate**.

Inflation Rate

Inflation rate: Percent increase in price level from one year to the next.

If we want to calculate the inflation rate between two specified dates (year 2006 and 2007), calculate the percent change between the GDP deflators in the 2 years.

i.e. If you were asked to calculate the inflation rate from 2006 to 2007:

$$Inflation\ Rate\ between\ 06\ \&\ 07 = \frac{GDP\ Deflator_{2007} - GDP\ Deflator_{2006}}{GDP\ Deflator_{2006}} \times 100$$

Practice Problem

YEAR	NOMINAL GDP	REAL GDP
2009	14,418.7	14,418.7
2010	14,964.4	14,783.8
2011	15,517.9	15,020.6
2012	16,155.3	15,354.6
2013	16,663.2	15,583.3
2014	17,348.1	15,961.7

This is a table of US Nominal and Real GDP obtained from the Bureau of Economic Analysis (BEA)¹. Notice 2009 Real and Nominal GDP are equal. This is because 2009 is the baseline year for which we compare following years.

Use the data above to answer the following questions:

Q. Calculate the GDP deflator in 2010 and 2014.

Q. What is the inflation rate between 2009 and 2010?

Q. What is the inflation rate between 2013 and 2014?

¹ <http://www.bea.gov/national/>