# What is Real vs. Nominal GDP?

Worksheet

Nominal GDP is the value of goods and services at current prices, while real GDP adjusts for inflation to show how much output actually grew. Real GDP reveals the true picture of economic health.

## Questions

1. Nominal GDP increased 5%, inflation was 2%. Real growth was approximately…

A) 5%
B) 2%
C) 3%
D) 7%

2. Real GDP adjustment accounts for…

A) Population growth
B) Inflation
C) Unemployment
D) Interest rates

3. A country's nominal GDP rose 2T, but real GDP only rose1.8T. This suggests…

A) Strong growth
B) Deflation
C) Significant inflation
D) Recession

4. For comparing economic health over decades, which is more useful?

A) Nominal GDP
B) Real GDP
C) Both equally
D) Neither

5. In 2022, a country's nominal GDP is $25 trillion and inflation is 8%. Estimate the real GDP in 2021 dollars.

6. Nominal GDP grew 6% year-over-year, but inflation was 4%. What was real growth?

7. Real GDP rose $500 billion at 2019 prices. If inflation was 3%, how much did nominal GDP rise?

8. Define: What is nominal GDP?

9. Define: What is real GDP?

10. Define: Why does inflation matter for GDP?

# Answer Key

1. C) 3% — Real growth ≈ 5% − 2% = 3%. Inflation inflates nominal figures.

2. B) Inflation — Real GDP removes the inflation effect, keeping prices constant.

3. C) Significant inflation — The $0.2T gap is driven by inflation; real growth was much slower.

4. B) Real GDP — Real GDP accounts for price changes and reveals true long-term growth.

5. Real GDP ≈ Nominal GDP / (1 + inflation rate) Real GDP = 25 / 1.08 ≈ 23.15 trillion The gap (1.85 trillion) is the inflation effect.

6. Real growth ≈ Nominal growth − Inflation Real growth ≈ 6% − 4% = 2% True economic expansion was only 2%.

7. Nominal increase ≈ Real increase × (1 + inflation) Nominal ≈ 500 × 1.03 = $515 billion Nominal GDP rose more in current dollars.

8. The total value of goods and services measured at current-year prices, unadjusted for inflation.

9. The total value of goods and services adjusted for inflation, showing true economic growth.

10. It can make the economy look bigger even if output didn't grow — real GDP strips that out.