Solutions

Each answer shows the steps, then the **result**.

2.1

- nominal GDP uses current prices; real GDP uses constant base-year prices to remove the effect of inflation

2.2

- real $= \dfrac{600}{120} \times 100 = \$500$ billion

2.3

- it removes price changes, so it shows the true change in output

3.1 B

3.2 B

3.3

(a)

- $\dfrac{800}{640} \times 100 = 125$

(b)

- risen (the deflator is above 100)