

Question #63629 - Economics – Macroeconomics | Completed

Question

GDP deflator is a ratio between?

Answer

GDP deflator is a ratio between nominal GDP and real GDP:

$$GDP_{defl} = \frac{GDP_{nominal}}{GDP_{real}} = \frac{P_t * Y_t}{P_0 * Y_t}$$

where P_t – current year price,

Y_t – current quantity of produced goods and services,

P_0 – base year price;

$$\text{So, } GDP_{defl} = \frac{\text{Value of Current Year Output at Current Prices}}{\text{Value of Current Year Output at Base Year Prices}}$$

GDP deflator measures inflation or deflation in estimated economy.

<https://www.AssignmentExpert.com>