Nominal GDP Formula

Nominal GDP, also known as nominal gross domestic product is the value of all the final goods and services at current market prices, or in other words, it is GDP calculated at the current market prices.

Nominal GDP takes into account these factors such as inflation, price changes, changing interest rates and money supply at the time of determining GDP.

The mathematical formula for calculating nominal GDP is

GDP = C + I + G + (X – M)

Where,

C = Consumption

I = Investment

G = Government spending

X = Exports

M = Imports

Impact of Inflation on Nominal GDP

1. As nominal GDP is calculated at current market prices, the growth in the nominal GDP will indicate that there is a price rise instead of an increase in the amount of goods produced.
2. Rise in inflation will make the nominal GDP to be greater.

Nominal GDP plays a significant role in calculating the GDP deflator as well as determining the real GDP.

To calculate nominal GDP, value of goods are taken at current year prices and this is achieved by using the consumer price index of the basket of goods.