

# HOW TO CONVERT NOMINAL DOLLAR VARIABLES INTO REAL

Nominal dollar-denominated variables are unadjusted in any way (also called “current dollar variables”)

Real variables (dollar denominated) are adjusted into base year prices. (Also called “constant dollar variables”)

The conversion of a nominal variable into a real variable is most easily done with the use of a price index.

Construction of the price index requires picking some year as the “base year” and assigning a value of 100 to that year. The 100 means that the price level (the average of prices of goods and services in that year) is 100% of the value of the base year. If any other year is assigned a value of 100, this would mean that the price level is equal to the price level of the base year. A value of 150 for any year would mean that the price level in that year is 150% of the price level found for the base year — or 50% higher than the base year. A value for the price index of 50 would indicate that prices are only 50% of the prices existing in the base year

## Formula for converting nominal into real variable

Example: Nominal GDP into real GDP :

$$\text{real GDP} = \frac{\text{nominal GDP}}{\text{Price index}/100}$$