Real GDP versus Nominal GDP

IS GDP a good measure of economic ~~GDP~~ well-being?

To answer for this question, let us consider the economy that produces only apples and oranges. In this economy GDP is the sum of the value of all the apples produced and the value ~~of the~~ ~~ap~~ of all the oranges produced. That is,

$$GDP = (\text{Price of Apples} \times \text{Quantity of Apples}) + (\text{Price of oranges} \times \text{Quantity of oranges})$$

Notice that GDP can increase either because prices rise or because quantities rise. Thus it is easy to see that GDP computed this way is not a good ~~gauge~~ measure of economic well-being. That is, this measure does not accurately reflect how well the economy can satisfy the demand of households, firms, and the government. If all prices double without any change in quantities GDP would double. Yet it would be misleading to say that the economy's ability to satisfy demands has doubled.

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