

## **Measuring the Effects of Terms of Trade in National Accounts**

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By construction, price changes have no effect on real gross national product. Yet, in the case of foreign trade, prices do affect real gross national income. Real gross national income can easily be defined to equal real gross domestic purchases if the current account is always precisely balanced, but what to do if there is a current account deficit or surplus has been a topic of controversy. This paper argues that real gross national income should be calculated in national accounts by deflating the current account balance by the gross domestic purchases price index. It develops a set of measures of contributions of export and import prices to national income as rescaled contributions to the GNP price index. A framework for reporting these and other measures of terms of trades effects in national accounts is then provided.