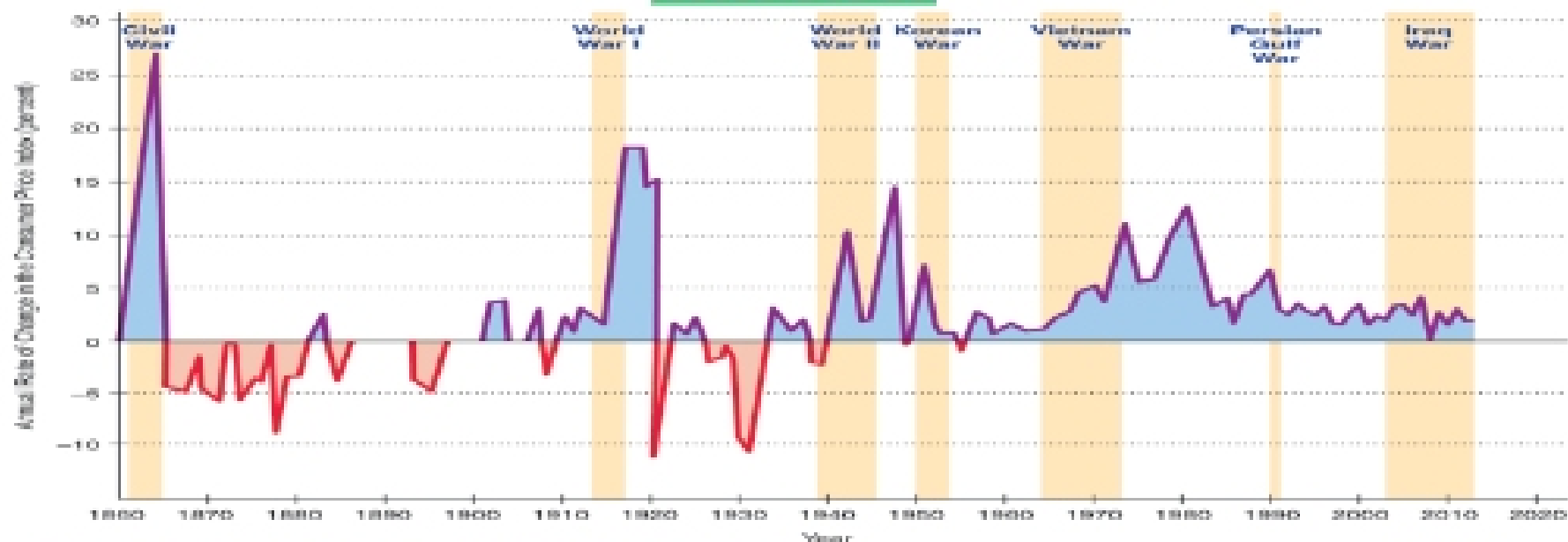


Chapter 6 - Measuring the cost of Living - Inflation



After 1940, U.S. inflation has been _____ but before 1940 there was significant _____.

Inflation - measures the % change in the _____ in the economy.

measured by: _____: measures cost of purchasing a given market basket in a given year relative to the base year.

Formula: $\text{Price Index} = \frac{\text{Cost of basket}}{\text{Cost of basket}} \times 100$

Inflation rate from year 1 to year 2 =

Inflation - If the inflation rate is > 0 then the _____ price of goods in the economy is _____.

Deflation - If the inflation rate is < 0 , then the average price of goods in the economy is _____.

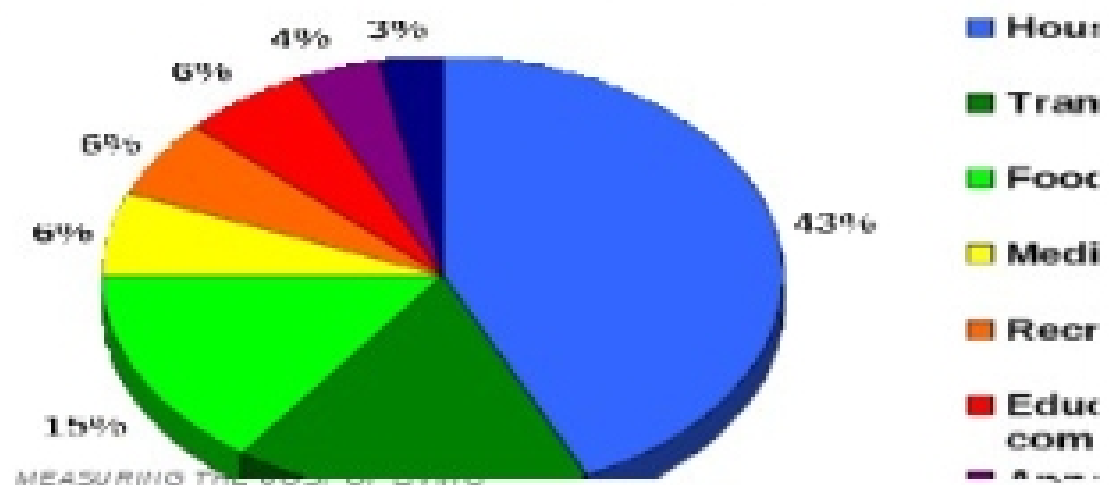
Hyper inflation - If inflation rate is _____

Consumer Price Index (CPI) - Measures the price of a _____ of goods consumed by a “typical” _____.

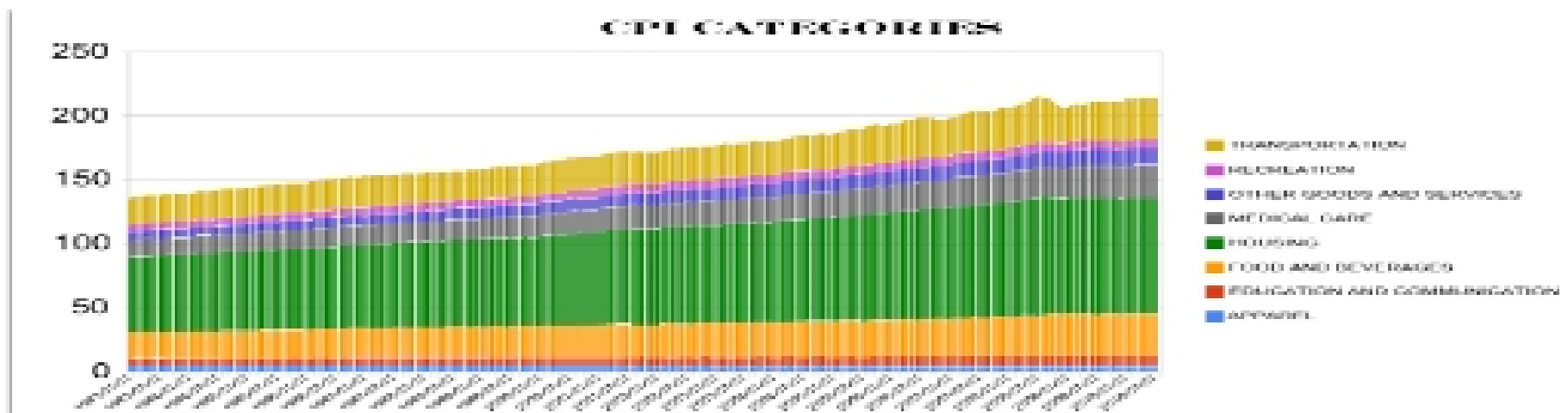
- measures the typical consumer’s _____
- Used to compute cost of living adjustments (COLAs) in many contracts and in Social Security. Thus if the CPI increases 2.1% these contracts will increase payments _____



What's in the CPI's Basket?



CPI CATEGORIES



Computing CPI and inflation rate

Step 1. Compute the cost of the basket of goods from the given information for both the current year and the base year.

Step 2. Compute the CPI for the necessary years.