

ECON2103 Microeconomics

Chapter 1 Exercises

1. The following table shows the average retail price of butter and the Consumer Price Index from 1980 to 2010, scaled so that the CPI = 100 in 1980.

	1980	1990	2000	2010
CPI	100	158.56	208.98	218.06
Retail price of butter (salted, grade AA, per lb.)	\$1.88	\$1.99	\$2.52	\$2.88

- Calculate the real price of butter in 1980 dollars. Has the real price increased/decreased/stayed the same from 1980 to 2000? From 1980 to 2010?
- What is the percentage change in the real price (1980 dollars) from 1980 to 2000? From 1980 to 2010?
- Convert the CPI into 1990 = 100 and determine the real price of butter in 1990 dollars.
- What is the percentage change in the real price (1990 dollars) from 1980 to 2000? Compare this with your answer in (b). What do you notice? Explain.