

**Economics 70, Personal Finance:  
Making Better Decisions and Building a Better Financial System**

**Assignment 2, due on Canvas by 11:59pm on Wednesday September 17**

**0. Readings.**

- Kapoor et al Chapter 1 appendix, 5, and 6
- Olen-Pollack Rules #1 and #2
- Morduch-Schneider Chapters 1, 2, and 3.

**1. Compare the cost of living in different cities.**

Go to <https://www.nerdwallet.com/cost-of-living-calculator>.

- a) Enter your home town (or the closest city to it, or a favorite US city if you are an international student or if Boston is your home town) as the place where you currently live. Write down the city you have chosen to work with.
- b) Enter Boston as the city you would like to move to, and enter \$50,000 as your income. What income do you need in Boston to match \$50,000 in your home town?
- c) What are the percentage differences reported between the costs of housing, transportation, food, entertainment, and health care between Boston and your home town?
- d) Which category has the largest percentage difference?
- e) Do the percentage differences in the other categories all have the same sign as the percentage difference in the cost of housing?
- f) Why might a difference in the cost of housing affect cost differences in other expense categories?

## 2. Compound interest.

- a) You put \$1,000 in a bank savings account paying 5% interest, and let the money accrue in the account for 10 years without making any withdrawals. How much money do you have in the account at the end of 10 years? Show this in the Excel spreadsheet provided (Econ70\_Assignment2\_Question2\_2025.xlsx, step1).
- b) How much of the amount in part a) is your original deposit, how much is interest on that deposit, and how much is interest on interest? Show this in the Excel spreadsheet provided (Econ70\_Assignment2\_Question2\_2025.xlsx, steps 2 and 3).
- c) Comment on the two graphs that the spreadsheet creates below the table. Does one of them show a straight line? Which one, and why? Write your answer in the Excel spreadsheet provided (Econ70\_Assignment2\_Question2\_2025.xlsx, step 4).

## 3. History of consumer price index.

- a) Go to <https://fred.stlouisfed.org/series/CPIAUCSL>. This web page provides the history of a standard measure of the Consumer Price Index (CPI).
  - i. At the left of the screen, find the August 2025 CPI value (first available on September 11, 2025) and write it down.
  - ii. Click on “Observations” and then “View All” to obtain a history of CPI values.
  - iii. Find the values for August 2024, August 2023, and August 2022 and write them down.
  - iv. Calculate the CPI inflation rate for the period August 2024-August 2025 (call this “academic year 2024-25”), and for the periods August 2023-August 2024 (academic year 2023-24) and August 2022-July 2023 (academic year 2022-23). Write down these inflation rates and comment on them.
  - v. Imagine that you have been working at a university for the past few years. Your starting salary was \$65,000 in academic year 2022-23; then it rose to \$67,000 in academic year 2023-24 and \$68,500 in academic year 2024-25. For the current academic year, 2025-26, you have been told that your salary will be \$70,000. Using the CPI at the start of each academic year, calculate your real (inflation-adjusted) salary in terms of 2022-23 purchasing power. In which academic year is your real salary the highest? Explain.
- b) You complain to your mother about your salary and she says “When I started work in August 1993, my salary was only \$35,000. You’re making twice that now! What on earth do you have to complain about?” How can you respond to your mother?

#### 4. Get your credit reports.

- g) Go to <https://www.annualcreditreport.com>. Click on the button “Request your free credit reports,” and follow the instructions to request your credit reports from Equifax, Experian, and TransUnion. Do you succeed in obtaining at least one credit report?
- h) If no, explain why not. Choose one of the following:
  - i. Your identity is not recognized (e.g. you do not have a Social Security number, or your address and name are not recognized).
  - ii. The system tells you that no credit report exists for you.
  - iii. The system asks you further detailed questions about your credit history (to verify your identity) that you are unable to answer successfully.
  - iv. Other (please explain).
- i) If yes, review the credit report or reports that you have obtained.
  - i. If you have multiple reports, do they contain the same information? If not, comment on any discrepancies you see.
  - ii. Do you believe the information is accurate? If not, explain in general terms why not.