

INTRODUCTION TO ECONOMICS  
BUSINESS ADMINISTRATION DEGREE - YEAR 2016

PRACTICE SHEET 7

1. Suppose your wage rose by 7% over the last year. Determine whether you are better or worse off in comparison to the previous year in each of the following cases (give some arguments):
  - (a) Yearly inflation rate was 10%.
  - (b) Yearly inflation rate was 4%.
  - (c) The economy experienced deflation, so that prices fell 3% last year.
2. Each month the Bureau of Labor Statistics (BLS) releases the CPI Summary for the previous month. Go to [www.bls.gov](http://www.bls.gov) and find the latest report (on the BLS home page, under “Latest Numbers” click on “Consumer Price Index”, and then choose Consumer Price Index Summary).
  - (a) How did the (seasonally adjusted) “all item” CPI change from the previous month? How does it compare to the same month one year ago?
  - (b) Compare the evolution for the last 7 months of the “all item” and the “all item less food and energy” CPI. Which is, in your opinion, more stable? Could you explain why?
3. In a fictitious college, the average student purchases three Spanish, four French and two English textbooks. The prices in dollars of these books are given in the accompanying table.

Textbook subject	2014	2015	2016
Spanish	57	62	64
French	80	82	84
English	85	95	105

- (a) What is the percent change in the price of an Spanish textbook from 2014 to 2016?
  - (b) What is the percent change in the price of an English textbook from 2015 to 2016?
  - (c) Create the price index for these books for all years with base year of 2014.
  - (d) What is the percent change in the market index from 2014 to 2015?
4. Imagine an economy where only two consumer goods are produced, movies and popcorn, and a capital good, cameras. The table below shows the amount of those goods produced and sold in units and their prices in monetary units.

Year	Movies	Price M.	PopCorn	Price P.	Cameras	Price C.
2015	100	40	1000	1.0	50	500
2016	105	42	1200	1.2	60	600

Consider that the base period is year 2015. Get for this economy:

- (a) Consumer Price Index (CPI) in 2015 and 2016.
- (b) Consumption deflator in 2015 and 2016..
- (c) Inflation on consumer goods in 2016 measured with: (i) consumption deflator, and (ii) CPI.
- (d) Did you get the same outcomes in (i) and (ii)? Why?