**The Consumer Price Index**

The Consumer Price Index is used to indicate the changes in the overall price level of goods and services in Canada.

The base year for the current CPI is 2002

The index for the base year is always 100.

*Consumer Price Index* = \* 100

The index stands at 121.7 in 2012. This means that the price level has increased 21.7% from 2002.

Because the value of the consumer price index is increasing, the purchasing power of the dollar is falling.

**Purchasing power of dollar**

*Purchasing power of the dollar = (1/ Consumer Price Index) \* 100*

The purchasing power of dollar is the reciprocal of CPI

Consumer price Index is 121.7 in 2012. Find the Purchasing power.

Purchasing power = =0.8217

The dollar could now purchase only 82.17% of what the dollar could purchase in 2002

**Real Income**

If you want to adjust income stated in current dollars (nominal income) to real income from the base period, you can use the CPI.

Example:

John earned $40 000 in 2002, and $75 000 in 2012 The Canadian CPI is 121.7 in 2012. The CPI base year is 2002. Find the value

of 75 000 in terms of real dollars from the base year.

Real Income = x100 = 61626.95