

CR1: New Goods Bias

Because the basket is **fixed**, the CPI does not account for **new goods** which provide same or better value per dollar spent



\$

7

**2 MB Floppy
disk**

\$7 buys 2 MB

\$7



256 GB

Memory stick

\$7b buys \$256,000 MB

1MB costs \$3.50

1MB costs \$0.000027





Because the basket is fixed, the CPI does not account for **new** goods which represent **lower prices**

1

Memory Storage Device

1

Memory Storage Device

CPI: New Goods Bias

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1MB costs \$3.50 1MB costs \$0.000027



2 MB Floppy
disk



256 GB
Memory stick

CPI: New Goods Bias

“Santa Monica must pay the cost of basket”



1 MB
\$3.50



1MB
\$3.50