16

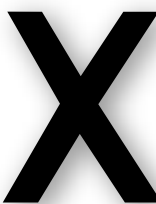
$$CPI_{today} = \frac{\text{Basket Cost Today}}{\text{Basket Cost Base year}} X100$$


2000

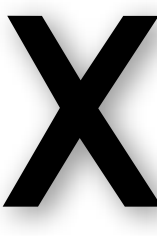
Basket	Quantity	Price Base Year	Price Today
Food	10	$10	$20
Doctor Visit	2	$50	$100
Rent	1	$700	$1,400
Gasoline	50	$2	$4
Basket Cost		$1,000	$2,000


1000

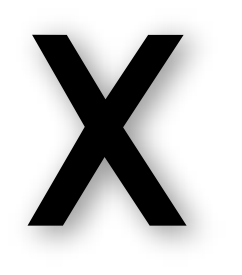
Use Prices today to calculate the basket Cost



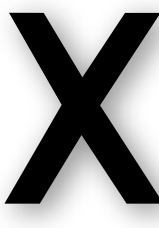

200




200




1400




200

Basket is 2 times more expensive today than in base year


200

$$CPI_{today} = 200$$

$$CPI_{base} = 100$$

CPI is always 100 in the base year

Wage		**$1,000**	**$1,000**

Real Wage		One Basket	Half Basket

Basket Cost Base year
Basket Cost Base year


CPIbase
=


X100


1000

100

$$CPI_{base} = \frac{\text{Basket Cost Base year}}{\text{Basket Cost Base year}} X100$$

Basket	Quantity	$CPI_{base}=100$	$CPI_{today} = 200$
Food	10	CPI is always 100 in the base year	Basket is 2 times more expensive today than in base year
Doctor Visit	2		
Rent	1		
Gasoline	50		
Basket Cost		$1,000	$2,000
Real Wage		One Basket	Half Basket

	Base	Today
Basket Cost	$1,000	$2,000
Nominal Wage	$1,000	$1,000
CPI	100	200