



**CP: Substitution Bias**

**Because items and quantities in the CPI basket are **fixed**, the CPI **does not account for substitutions** consumers do in response to higher prices.**



**\$0.30/each**



10

apples

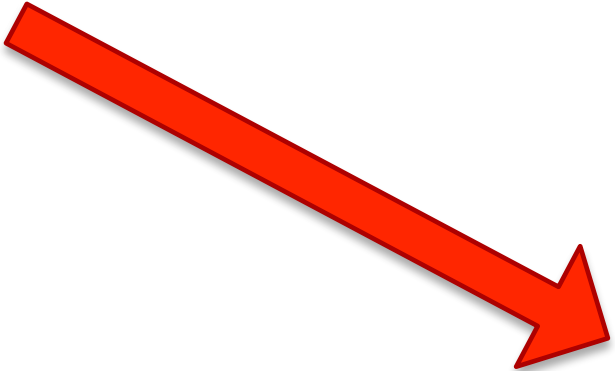
**\$2/each**



0

apples





**Year when  
basket was  
built**

$$10 \times \$2$$



10

apples

**Today**

CPI uses **OLD**  
quantity with  
**new price**

# CPI: Substitution Bias

Because items and quantities in the CPI basket are **fixed**, the CPI **does not account for substitutions** consumers do in response to higher prices.



**“Santa Monica must pay the cost of basket”**



**\$0.30/each**



**\$2/each**