

2

7

Basket	Quantity	Prices Base Year
Food	10	10
Doctor Visit	2	50
Rent	1	700
Gasoline	50	2
Basket Cost		1,000

Prices Today

30

75

1500

1

2,000

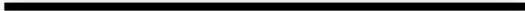
Calculating the CPI

CPlibase =

Cost of the Basket Base

Cost of the Basket **Base** $\times 100$

1,000



$$1,000 \times 100$$

CP1base = 1000

The CPI in the base year is
always 100

The **ONE** number that
represents **base year's** prices
of **all** goods and services in
the market basket is **100**

Calculating the CPI

$$\text{CPI}_{\text{base}} = \frac{\text{Cost of the Basket Base}}{\text{Cost of the Basket Base}} \times 100$$

Basket	Quantity	Prices Base Year	Prices Today
Food	10	10	30
Doctor Visit	2	50	75
Rent	1	700	1500
Gasoline	50	2	1
Basket Cost		1,000	2,000

$$\text{CPI}_{\text{base}} = \frac{1,000}{1,000} \times 100$$

$$\text{CPI}_{\text{base}} = 100$$

The CPI in the **base** year is
always 100

The **ONE** number that
represents **base year's** prices
of **all** goods and services in
the market basket is **100**

Inflation = % Change in Price Index