

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

CPlibbase ==

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