We do not calculate the CPI correctly: Substitution Bias

In the year when the basket was built, apples were cheap and thus most consumers bought them in large quantity:10 apples

CPI uses old quantity with new price



\$0.30/each

With time, apples become expensive and consumers substitute apples for a cheaper alternative

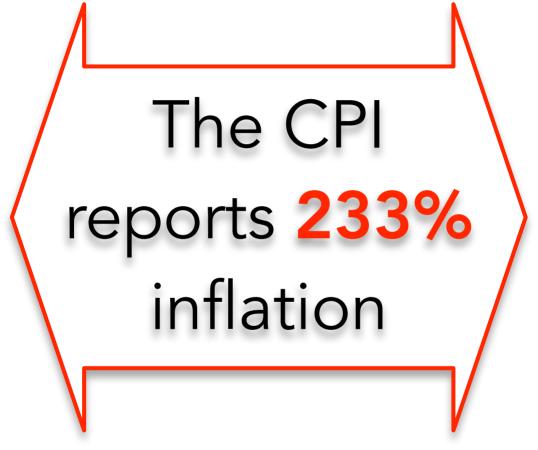


\$1/each

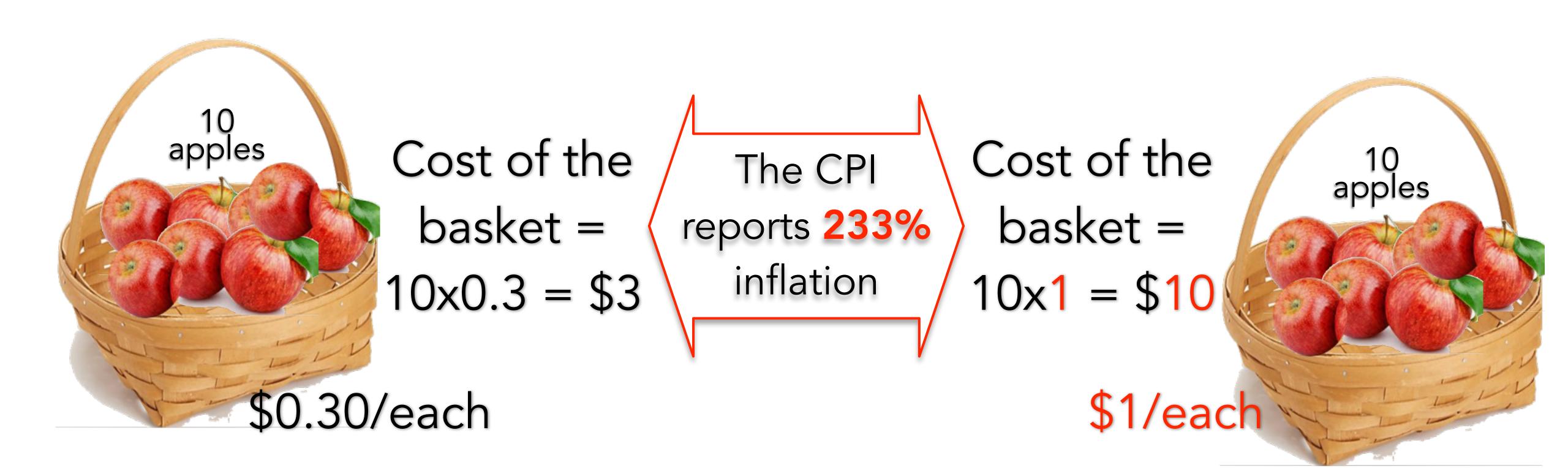
Cost of the basket = 10x0.3 = \$3

```
Cost of the
basket =
```

10x1 = \$10



We do not calculate the CPI correctly: Substitution Bias



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