Name:

Date:

School:

Facilitator:

5.03 Inflation and the Consumer Price Index

Total Points: 48

1. What is hyperinflation?

1. What is demand-pull inflation?

1. What is cost-push inflation?

1. Who calculates the CPI for the United States?

1. What is the CPI for the base year?

1. What is the current base year?

1. Describe what is in the market basket.

1. Why is the market basket considered to be biased?

1. What is deflation?

1. What is inflation?

1. What is stagflation? Why is stagflation the worst type of inflationary description?

1. Assume the market basket consists of Cups, Speakers and Milk. Use the information below to complete the chart by filling in the highlighted cells. *Hint: Imagine you are shopping for these items. What is the amount of money the cashier will tell you to pay?*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **2016** | | **2017** | | **2018** | |
|  | **Units** | **Price** | **Cost of Basket** | **Price** | **Cost of Basket** | **Price** | **Cost of Basket** |
| **Cups** | 6 | 2 | 12 | 3 | 18 | 4 |  |
| **Speakers** | 4 | 3 |  | 4 |  | 5 |  |
| **Milk** | 5 | 4 | 20 | 4 |  | 5 | 25 |
|  | | **Total** | 44 | **Total** |  | **Total** |  |

1. Using the market basket costs and using 2016 for the base year, determine the CPI for the give years. Round to the nearest whole number.
   1. The CPI for 2016:

*Hint: The base year is always 100. This will allow economists to measure rates of changes if they have a base year of 100.*

* 1. The CPI for 2017:

*Hint: The Consumer Price Index is used to measure inflation. The formula is (price in a specific year 2017/price in the base year 2016) x 100.*

* 1. The CPI for 2018:

*Hint: The Consumer Price Index is used to measure inflation. The formula is (price in a specific year 2018/price in the base year 2016) x 100.*

1. Henry Ford increased the daily wage rate for his worker in 1914 from $2.37 a day to $5.00 a day. What would $5.00 in 1914 with a CPI of 10 be worth in 2018 dollars with the CPI of 251? *Hint: The dollar amount in question x CPI in the updated year/CPI in the old year.*

1. In 1929, Babe Ruth made $80,000 a year and President Herbert Hoover made $75,000 a year. The CPI in 1929 was 17.1.
   1. What would Babe Ruth’s salary be in 2018 dollars?
   2. What would President Herbert Hoover’s salary be in 2018 dollars?