**Inflation Activity**

**Sample Market Basket**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Basic Market basket item | Number of units | Year 1Price per unit | Year 1 Cost of market basket | Year 2Price per unit | Year 2 Cost of market basket | Year 3 price per unit | Year 3 cost of market basket |
| Cheese | 2 lbs. | $1.75 |  | $1.50 |  | $1.50 |  |
| Flashdrives | 2 units | $12.00 |  | $15.50 |  | $20.00 |  |
| Gasoline | 10 gallons | $1.25 |  | $1.60 |  | $2.70 |  |
| Total:  | - | - |  | - |  | - |  |

**If Year 1 is the base, what is the CPI for each year?**

 **Remember, CPI =** [current/base] x100

Year 1\_\_\_\_\_\_

Year 2\_\_\_\_\_\_\_

Year 3\_\_\_\_\_\_\_

**What is the inflation rate from**

 **Remember inflation rate =** [current – base]/base] x 100

Year 1 to Year 2 \_\_\_\_\_\_\_\_\_

Year 2 to Year 3 \_\_\_\_\_\_\_\_\_

Year 1 to Year 3 \_\_\_\_\_\_\_\_\_\_

**If Year 2 is the base, what is the CPI for each year?**

Year 1\_\_\_\_\_\_

Year 2\_\_\_\_\_\_\_

Year 3\_\_\_\_\_\_\_

**Using the Year 2 base, what is the inflation rate from**

Year 1 to Year 2 \_\_\_\_\_\_\_\_\_

Year 2 to Year 3 \_\_\_\_\_\_\_\_\_

Year 1 to Year 3 \_\_\_\_\_\_\_\_\_\_

**Review Questions:**

**1)Did the index numbers change when the base year is changed from year 1 to year 2? Why?**

**2) Did the inflation rate change between years when the base year is changed from year 1 to year 2? Why?**

**3) Would the price index numbers have changed if a different set of expenditure patterns were selected? Why?**

**4) What might cause the price index numbers to not be fully accurate from year to year?**