

Chapter 6

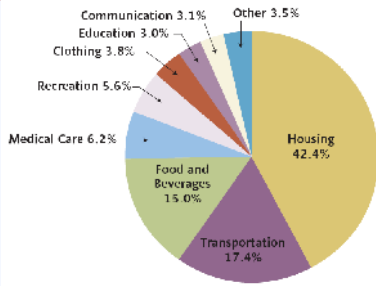


The Price Level and Inflation

ECONOMICS: Principles and Applications, 4e
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Tracking and Reporting the Price Level

Figure 1 Broad Categories; Relative Importance in CPI, December 2005



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Table 1: Consumer Price Index, December, Selected Years, 1970-2005

Year	Consumer Price Index (December)
1970	39.8
1980	86.3
1990	133.8
2000	174.0
2001	176.7
2002	180.9
2003	184.3
2004	190.3
2005	196.8

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The Rate of Inflation Using the CPI, 1950-2005

• Figure 2 The Rate of Inflation Using the CPI, 1950-2005

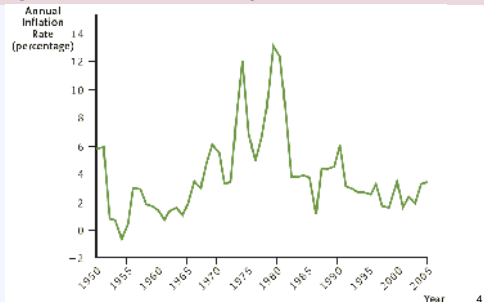


Table 2: Nominal and Real Wages (in December of Each Year)

Year	Nominal Wage (dollars per hour)	CPI	Real Wage (1983 dollars per hour)
1975	4.87	55.5	8.77
1980	7.12	86.3	8.25
1985	8.86	109.3	8.11
1990	10.35	133.8	7.74
1995	11.79	153.5	7.68
2000	14.29	174.0	8.21
2005	16.37	196.8	8.32

Table 3: Indexing and "Overindexing" Social Security Benefits

Year	(1) Accurate Price Index (2006 = 100)	Benefits Indexed to Accurate CPI (rising at 2%)		Benefits Indexed to Overstated CPI (rising at 3%)	
		(2) Nominal Annual Benefit (Indexed at 2% per year)	(3) Real Annual Benefit, [(2) ÷ (1)] × 100	(4) Nominal Annual Benefit (Indexed at 3% per year)	(5) Real Annual Benefit, [(4) ÷ (1)] × 100
2006	100.00	\$25,000	\$25,000	\$25,000	\$25,000
2007	102.00	\$25,500	\$25,000	\$25,750	\$25,245
2008	104.04	\$26,010	\$25,000	\$26,523	\$25,493
2009	106.12	\$26,532	\$25,000	\$27,318	\$25,742
...
2029	148.59	\$37,149	\$25,000	\$45,153	\$30,388

Table A.1: Prices and Quantities in a Two-Good Economy

	December 2004		December 2005	
	Price (per lb)	Quantity (lbs)	Price (per lb)	Quantity (lbs)
Hamburger Meat	\$5.00	30	\$6.00	10
Oranges	\$1.00	50	\$1.10	100

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Table A.2: Calculations for the CPI

	At December 2004 Prices	At December 2005 Prices
Cost of 30 lbs of Hamburger	$\$5.00 \times 30 = \150	$\$6.00 \times 30 = \180
Cost of 50 lbs of Oranges	$\$1.00 \times 50 = \50	$\$1.10 \times 50 = \55
Cost of Entire Market Basket	$\$150 + \$50 = \$200$	$\$180 + \$55 = \$235$

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