

Question 5 Why does CPI tend to be higher than GDP deflator?

Year	Consumer price index (CPI)	GDP deflator	GDP (\$ million)
2014	100	100	4465
2015	105.35	105.11	4814
2016	109.21	108.92	5026

because CPI have fixed quantity but price can change and because the inflation affect the price

Question 6 Answer the following questions.

	Price per unit in dollars (\$)	
	2013	2014
Pizza	12.50	12.90
Chocolate milk (litres)	1.15	1.25
Jazz concert	45.00	46.00
Total cost of the typical basket	58.65	60.14

The typical basket of goods purchased by an average consumer consists of 10 pizzas, 100 litres of chocolate milk and 10 jazz concerts.

6.1 With 2013 as the base year, calculate CPI of 2013 and 2014.

$$CPI_{2013} = \frac{\text{Cost of Fixed Basket in 2013}}{\text{Base Year Cost of Fixed Basket}} \times 100 = \frac{590}{590} \times 100 = 100\%$$

$$CPI_{2014} = \frac{\text{Cost of Fixed Basket in 2014}}{\text{Base Year Cost of Fixed Basket}} \times 100 = \frac{714}{590} \times 100 = 121\%$$

6.2 Calculate the inflation rate of 2014.

$$\text{the inflation rate of 2014} = \frac{CPI_{2014} - CPI_{2013}}{CPI_{2013}} \times 100 = \frac{121 - 100}{100} \times 100 = 21\%$$

for 2013 ; $(12.5)(10) + (1.15)(100) + (45)(10) = 590$

for 2014 ; $(12.9)(10) + (1.25)(100) + (46)(10) = 714$