Name: _____   **Class day and period: _____**

All about the Consumer Price Index (CPI)

Instructions: Read pages 361 to 363 in your textbook then read the passage below. Answer the questions on the back of this page to turn in for a grade at the end of class.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a **market basket of consumer goods and services**. The CPI is calculated by the federal Bureau of Labor Statistics (BLS) and it is the main indicator of inflation (or deflation) used in the United States.

The list of consumer goods and services that make up the CPI market basket is developed from detailed spending information provided by families and individuals on what they actually buy. About 24,000 consumers from around the country provide information each quarter on their spending habits in an interview survey. To collect information on frequently purchased items, such as food and personal care products, another 12,000 consumers keep diaries listing everything they bought during a 2-week period.

BLS has classified all purchased items into more than 200 categories, arranged into eight major groups (food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services). For each of the item categories, the Bureau has chosen samples of several hundred specific items within selected stores to represent the thousands of varieties available in the marketplace. For example, in a given supermarket, the Bureau may choose a plastic bag of golden delicious apples, U.S. extra fancy grade, weighing 4.4 pounds, to represent the **apples** category.

BLS data collectors visit (in person or on the web) or call thousands of retail stores, service establishments, rental units, and doctors' offices, all over the United States, to obtain information on the prices of the thousands of items used to track and measure price changes with the CPI. The BLS records the prices of about 80,000 items each month, representing a scientifically selected sample of the prices paid by consumers for goods and services purchased.

The items selected for the **market basket of consumer goods and services** will be repriced, monthly or bimonthly, until they are replaced after four years through sample rotation. Repricing is usually done in person, but may be done via telephone or the internet.

Price changes are recorded and sent to the central office of the BLS for further analysis and creation of the numerical CPI. The combination of carefully selected geographic areas, retail establishments, goods and services, gives a measurement of price change for all items in all outlets, in all areas priced for the CPI.

The CPI affects nearly all Americans because of the many ways it is used. Some examples of how it is used follow:

- *As an economic indicator.* The CPI is the most widely used measure of inflation and is sometimes viewed as an indicator of the effectiveness of government economic policy. It provides information about price changes in the Nation's economy to government, business, labor, and private citizens and is used by them as a guide to making economic decisions. In addition, the President, Congress, and the Federal Reserve Board use trends in the CPI to aid in formulating fiscal and monetary policies.
- The CPI is also used as a deflator of the value of the consumer's dollar to find its purchasing power. The purchasing power of the consumer's dollar measures the change in the value to the consumer of goods and

services that a dollar will buy at different dates. In other words, as prices increase, the purchasing power of the consumer's dollar declines.

Excerpt from https://www.bls.gov/cpi/questions-and-answers.htm

1. What is inflation?

_____

_____

2. What is the Consumer Price Index (CPI)?

_____

_____

3. What are the steps for calculating the CPI? (there are four)

_____

_____

_____

_____

4. Who measures inflation in the U.S. economy?

_____

5. What macroeconomic goal does the CPI help to measure?

_____

6. Why is CPI important and how is it used?

_____

_____