

Topic 3: Price Indices (CPI) and Inflation*Krugman Module: 14 & 15***Objectives:**

1. Explain what the Consumer Price Index (CPI) is and how it is calculated
2. Explain the limitations of the CPI as a measure of the cost of living
3. Adjust money values for inflation and calculate real wage rates and real interest rates

Key Terms:

CPI
Reference Base Period
Inflation Rate
Cost of living index

Nominal wage rate
Real wage rate
Nominal interest rate
Real interest rate

Key Conceptual Questions:

1. Define the CPI and discuss the meaning of the CPI numbers
2. Define and calculate the inflation rate
3. Identify the various bias and explain the consequences of the CPI bias for private contracts and government outlays
4. Compare the GDP deflator and the CPI as measurements of the cost of living
5. Discuss the difference between the nominal wage rate and the real wage rate
6. Explain how the real wage is calculated
7. What is the difference between real and nominal interest rates?
8. Explain the relationship between the nominal interest rate, the real interest rate, and the inflation rate