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Lesson 17

The CPI and You

Objectives

- To explore the changes in the cost of living throughout the twentieth century
- To analyze the impact of inflation on prices
- To practice using the CPI to calculate prices of the past

Notes to the Teacher

Most people think that the cost of living has been rising in the past few decades. They fail to understand the difference between real dollars and inflated dollars. Careful analysis shows that while prices of products have drastically increased on first glance, real prices have held steady in some cases, and in other cases have actually fallen.

Students may enjoy the discovery of old prices and may be amazed at the translation into today's money. This exercise purposely uses a variety of figures from throughout the century.

In the end, students should discover that prices are relative to their time and that the cost of living has actually gone down for the most part in the twentieth century.

There are a few exceptions to the decrease in the cost of living. Housing, health care, and education have all skyrocketed since the 1970s. This is due to rising labor costs, the technology of medicine, and the scarcity of land.

Students will need basic algebra to solve the "It Should Cost" column on **Handout 17**. For example, if a VCR cost \$875 in 1978 when the CPI was 74 (1983 = 100), then a simple ratio can be set up using the current CPI (1999 = 166.4).

$$\begin{array}{l} \text{Then,} \\ \text{Then,} \\ \text{Then,} \\ \text{Then,} \\ \text{Then,} \end{array} \begin{array}{l} \frac{875}{74} = \frac{X}{166.4} \\ 74X = 875 \times 166.4 \\ 74X = 145,600 \\ X = 145,600/74 \\ X = \$1967.57 \end{array}$$

In other words, a VCR should cost close to \$2,000 in today's prices. But, top of the line VCRs are far cheaper, often less than \$250. Despite inflation, prices have plummeted due to huge increases in supply.

The inflation rates can easily be found by subtracting the CPI of an earlier year from that of the year after. Then divide the remainder by the earlier year. The number left is a percentage and should be placed as a percent.

Corresponding Readings

Handout 17, C, D, J

Procedure

1. Review the term *CPI*.
2. Distribute **Handout 20**. Review directions with the class, and demonstrate how to find an answer to the "It Should Cost" column by using a simple algebraic ratio. Give students the current CPI, which should be placed in the blank provided.
3. Assign the handout as homework, seatwork, or small-group work once students master the math required.
4. Call on various students for their responses as the correct answers are reviewed, and answer questions as needed.

Suggested Responses:

Part A.

Answers will vary according to current CPI. Using 166.4 (August 1999), the answers to the "It Should Cost" column are as follows:

- | | |
|----------------|----------------|
| 1. \$87,578.95 | 6. \$1,967.57 |
| 2. \$49.09 | 7. \$1,155.56 |
| 3. \$5.64 | 8. \$3,246.83 |
| 4. \$6.28 | 9. \$17,702.13 |
| 5. \$2,106.33 | 10. \$4,853.33 |

Answers to the rest of the graph will vary from region to region and student to student.

Part B.

1990	4.6%
1991	3.1%
1992	3%
1993	2.5%
1994	3.8%
1995	3.5%
1996	1.9%
1997	1.9%
1998	2%
1999	2%
2000	<i>not yet available</i>

Part C.

1. *Cars and houses are more expensive than they used to be; food and technological products are much more affordable*
2. *Productivity improves to the point that products become much cheaper to produce. Competition also brings prices down.*
3. *Competition, improved production methods, and older models are supplanted by better technology.*
4. *Rates of inflation have remained very steady. This is good because businesses and consumers can accurately project for future budgets. Prices remain low, and people remain calm.*

You and the CPI

Part A.

Directions: Using the formula provided, figure out what the following products and services *should* cost in today's dollars. Use a simple algebraic ratio to find the cost in today's dollars. Then, in the next column, jot down what they actually cost in today's dollars. Then, in the next column, jot down what they *actually* cost. You may consult other people or sources if you are unsure of a price. The current CPI is _____.

Product	Year	Old Price	Old Year CPI	It Should Cost	It Actually Costs	Explanation
1. Three-bedroom house	1946	\$10,000	19			
2. Loaf of bread, pound of butter, gallon of milk, and a pound of ground beef	1940	\$4.16	14.1			
3. Cheap seat at a major-league baseball game	1960	\$1.00	29.5			
4. Movie ticket	1975	\$2.00	53			
5. One year at state college	1965	\$400	31.6			
6. VCR	1978	\$875	74			
7. CD player	1985	\$750	108			
8. Apple IIe computer	1980	\$1600	82			
9. Average annual income of a high school graduate	1940	\$1500	14.1			
10. Model T Ford (use a modern equivalent)	1925	\$525	18			

Part B.

Directions: For each of the following years, calculate the percent change from year to year. That is the rate of inflation.

Rates of Inflation

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
CPI	129.9	136	140.2	144.4	149.9	155.2	157	160	163	166.4	

% Change

Part C.

Directions: Answer the following questions.

1. Which products are more expensive than they used to be? Which ones are cheaper?
2. How can things like food actually go down in price over time?
3. Why do high-tech products like VCRs go down in price so much?
4. How could you describe the rates of inflation in the 1990s? Is this good or bad?