



## Worksheet 14.1

### What Exactly does Inflation Measure?

The US Bureau of Labor Statistics releases monthly data on prices to let Americans know just how much inflation affects their livelihoods. The **Consumer Price Index** consists of a ‘basket of goods’, that when bundled together represent the ‘typical’ American consumer’s expenditures. The CPI is broken down into a few broad categories:

- Health care
- Apparel
- Housing
- Education/communication
- Recreation
- Food/beverages
- Transportation
- Miscellaneous

Here’s the cool part though, within each broad category the BLS tracks the prices of dozens of specific categories, around 200 to be precise. Each of these is then broken down into individual products, around 84,000 in total! The task of tracking the prices of 84,000 individual goods and services every month is daunting.

The New York Times has assembled what can only be described as a [mosaic of consumption](#), organizing the 200 specific CPI categories into what looks like an ornate stained-glass window, in which the size of each piece of glass represents the percentage of Americans’ income that go towards each specific category. Some of the categories represented in this mosaic include items such as:

- Oils and peanut butter (0.1%)
- Gasoline (5.2%)
- Garbage collection (0.3%)
- Internet (0.3%)
- Nursing homes (0.1%)
- New cars and trucks (4.6%)
- DVDs (0.2%)

Study the graph and answer the questions that follow:

#### Questions:

- What is the largest component of the basket of goods used to determine inflation in America?
- Can you identify the single smallest type of spending measured by the US CPI?
- How will a 5% increase in a category that makes up 20% of the typical American’s spending affect the overall inflation rate compared to a 5% increase the price of a category that only makes up 5% of total spending? Calculate the impact of the two price changes described.
- With reference to the graphic, identify three shortcomings of using the Consumer Price Index as a measure of economic well-being.