

Price Indexes

The table on the right shows data on the consumer price index for urban consumers (CPI-U) for selected years. Use this information to answer the questions on this quiz.

Year	CPI-U
1973	44.4
1977	60.6
1980	82.4
2000	171.1

a) For each item in the table, fill in the missing price (real price, nominal price, or price in today's dollars). If a box is black, do not fill in a price. (6 points)

Item	Nominal Price	Real Price	Price in Today's Dollars
1973 VW Beetle	\$2,073		\$7,988.52
2000 VW New Beetle	\$15,900		\$15,900
1980 Linear Algebra Textbook	\$18.95	\$23.00	
2000 Linear Algebra Textbook		\$52.57	\$89.95
1977 gallon of regular (89 octane) unleaded gasoline	\$0.549		\$1.550
2000 gallon of (89 octane) unleaded gasoline		\$0.853	\$1.459

b) For which pairs are the comparison of real prices valid and for which are they not? Explain briefly. Answer on the reverse if you need more space. (6 points)

We can certainly make a valid comparison between gasoline in '77 and in 2000 as there have been no noted changes in quality or characteristics.

We can almost certainly not make a valid comparison between the 1973 and 2000 VW Beetles. They differ in significant ways: safety, performance, engine type, interior room, etc.

We cannot be certain about the linear algebra book but it may be that the comparison is valid if the content of such texts has not changed markedly over the last 20 years.