ECON: What is the Consumer Price Index (CPI)?

As a result of the pandemic, in 2021 there were quite a few news stories about inflation and the Consumer Price Index. In this activity you will learn about and discuss how these important topics work and are related to one another.

Part I: What Is Inflation?

If you have not yet learned about inflation, What Is Inflation? will provide you with a helpful introduction.

1. Explain what inflation is and how it affects consumers.

Part II: How Do We Measure Inflation?

The Consumer Price Index (CPI) is commonly used to measure inflation. The CPI is calculated by collecting data on what's called a "basket" of goods and services that's been chosen to represent the overall economy. Fun fact: the basket of goods and services the Bureau of Labor Statistics uses to calculate the CPI includes as many as *80,000* items!

2. Make a list of 10 goods and services that you believe families purchase on a regular basis. Do you feel these goods and services are a good representation of whether prices across the whole economy are high or low? Explain your answer.

Open the resource Consumer Price Index (CPI) Definition. You will automatically be brought to the section titled *Who and What Are Covered in the CPI?*

3. Match the 10 goods and services you listed in #2 to the eight major categories in the CPI.

4. For the categories that none of your answers fell under, what are those categories and what are some goods and services that would fit those categories?

5. What does it mean when the monthly CPI report says a category is 5%? What would it mean if the report says the CPI for a category is -5%?

Part III: What's Happening Now?
Browse this interactive from the Bureau of Labor Statistics to learn more about what's happening with the current state of inflation and the CPI.

> **Tip:** The interactive starts with only "all items" selected, which displays the rate of increase/decrease for all items in the CPI over time. You can add or remove categories to the chart by clicking on them in the list.

6. Cite evidence that demonstrates the following:
   a. Click to show the individual categories in the interactive. What major categories are currently having the most impact on CPI?

   b. What happens to CPI during recessions (the gray shaded areas)? Hypothesize why this happens.

   c. What is the current approximate rate of change in the CPI (all items)? How does this compare to previous years?

7. Now that you've seen the historical trend of the CPI, think about the current state of the economy. What do you anticipate the CPI will be next month? Explain your answer.